PROBLEMS OF SMALL BUSINESS UNDER THE CONTROLLED MATERIALS PLAN

ALLOCATION OF OIL-COUNTRY TUBULAR GOODS

HEARINGS

BEFORE

SUBCOMMITTEE NO. 3 OF THE

SELECT COMMITTEE ON SMALL BUSINESS

HOUSE OF REPRESENTATIVES

EIGHTY-SECOND CONGRESS

SECOND SESSION

PURSUANT TO

H. Res. 33

A RESOLUTION CREATING A SELECT COMMITTEE TO CONDUCT A STUDY AND INVESTIGATION OF THE PROBLEMS OF SMALL BUSINESS

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ALLOCATION OF OIL-COUNTRY TUBULAR GOODS

WEDNESDAY, FEBRUARY 27, 1952

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE NO. 3 OF THE
SELECT COMMITTEE ON SMALL BUSINESS,
Washington, D. C.

The subcommittee met, pursuant to call, at 10:05 a. m., room 1301, New House Office Building, Hon. Clarence G. Burton, chairman, presiding.

Present: Representatives Wright Patman (chairman of the full committee), Clarence G. Burton (chairman of the subcommittee), Clinton D. McKinnon and Horace Seely-Brown, Jr.

Also present: Victor P. Dalmas, executive director; Jeremiah T. Riley, assistant counsel; and Byron B. Boatright, consultant; of the staff.

Mr. BURTON. We will call the meeting to order.

At the outset I would like to make it perfectly clear that these are "friendly" hearings. They constitute a continuation of this subcommittee's inquiry into the operation of the Controlled Materials Plan, with particular emphasis upon the position of small-business men under these materials controls.

Some time ago the committee's attention was directed to the activities of the Petroleum Administration for Defense in its allocation of oil-country tubular goods.

Allegations were made that the small and independent petroleum producers were not being dealt with equitably under the methods adopted by PAD in its program of materials distribution.

We recognize that many of these problems were inherent attributes of a new and untried allocations program. It is felt that by and large these have been worked out as the program got under way.

However, in acting on the complaints from the industry itself, the subcommittee began preliminary investigation of the activities of PAD, reviewing in particular the operations of the Production Division, which is charged with the responsibility of determining the quantities of the oil-country tubular goods to be allocated to each oil producer.

The information and factual data which have been developed from our initial examination form the basis for these hearings today.

We hope now to corroborate the findings made thus far and, more important, to discuss possible changes in procedure which will make for a more efficient operation of the program and provide more production for the security of our country.

Our discussions with the officials of PAD will be followed by a review of the over-all situation with the heads of the Requirements Committee of DPA in order that we may obtain a thorough coverage of the subject.

I think it appropriate at this time to express the committee's appreciation to Secretary of Interior Chapman, Administrator Brown, and Mr. Foree, Director of the Production Division, for the splendid cooperation they have given us at all times. Our task has been greatly minimized by the willing assistance which these officials have given us. The committee has been strongly impressed with the attitude of conscientiousness which pervades the entire workings of PAD and, as a result of these hearings, we hope to be able to give our vote of confidence to the manner in which PAD is meeting its responsibility in the defense program.

Gentlemen, in these hearings, since the matter to be discussed is very technical, we will probably depend largely upon our professional force in asking questions.

The first witness is to be Mr. A. P. Frame, Assistant Deputy Administrator, Petroleum Administration for Defense.

STATEMENT OF A. P. FRAME, ACTING DEPUTY ADMINISTRATOR, PETROLEUM ADMINISTRATION FOR DEFENSE (ACCOMPANIED BY E. E. BATZELL, ASSISTANT DEPUTY ADMINISTRATOR AND GENERAL COUNSEL; R. M. MORRISON, DIRECTOR, MATERIALS DIVISION; R. G. LAWTON, CONSULTANT, FORMER DIRECTOR, PRODUCTION DIVISION; W. H. FARRAND, DIRECTOR, FOREIGN PRODUCTION DIVISION; R. L. FOREE, DIRECTOR, DOMESTIC PRODUCTION DIVISION; D. R. TEIS, ASSISTANT DIRECTOR, DOMESTIC PRODUCTION DIVISION; R. V. SELLERS, ANALYST, DOMESTIC PRODUCTION DIVISION; O. L. HASTY, LAWYER, DOMESTIC PRODUCTION DIVISION; E. G. BEMIS, ANALYST, DOMESTIC PRODUCTION DIVISION; L. D. HOLSAPPLE, ANALYST, DOMESTIC PRODUCTION DIVISION; AND D. E. CHANDLER, ANALYST, DOMESTIC PRODUCTION DIVISION)

Mr. FRAME. My name is A. P. Frame. I have a statement here which, with your permission, I will read.

Mr. BURTON. You may proceed.

Mr. FRAME. In the absence of Mr. Bruce Brown, Deputy Administrator of the Petroleum Administration for Defense, I am appearing for the Petroleum Administrator in the capacity of Acting Deputy.

As you know, Secretary of Interior Oscar L. Chapman is Administrator of PAD. For more than a year I have served PAD as Assistant Deputy Administrator in charge of Domestic Oil Operations, and I am presently, without compensation, an employee of PAD.

My service in industry is as Vice-President of Cities Service in charge of manufacturing and research and also I expect to return to my company the first of April.

The field of activity chosen for investigation by your Committee has come under my constant surveillance.

Thus far, PAD has had two Directors of its Domestic Production Division, both of whom have operated under my supervision. Mr. Richard G. Lawton of Magnolia, Arkansas, served as Director of Production during 1951. Mr. Robert L. Foree of Dallas, Texas, is currently serving as Director of Production and will continue to serve throughout 1952. Mr. Lawton has been retained as a consultant

on PAD's rolls, largely for the purpose of this hearing. Both of these gentlemen are here and are available for questioning. Also available to support the testimony to be given before this Committee are Mr. Elmer E. Batzell, Assistant Deputy Administrator and General Counsel of PAD; Mr. Richard Morrison, Director of the Materials Division; and numerous experts from our Production Division.

The purpose of this general statement is to lay a basis for later, more technical, testimony from our staff and, in the words of the Committee's invitation to testify:

> to outline the objectives of our (your) Agency in meeting the defense requirements under the present national emergency.

In order to avoid diluting this general statement with distracting detail, I will cite only a minimum number of statistics and will assume that the Committee will accept our interpretation of existing statutes and NPA and PAD Regulations. Our Production and Materials Divisions can, if requested, produce substantiation for the statistical trends I shall refer to and our General Counsel is prepared, if necessary, to submit comments on the scope and limitations of the Defense Production Act and NPA and PAD Regulations.

Throughout this statement I shall refer to "oil-country tubular goods" as meaning casing, tubing and drill pipe. These are the forms of pipe ordinarily used in searching for and actually producing oil and gas from underground deposits. On occasion and when necessary and expedient, operators sometimes use ordinary "line pipe" as a substitute for oil-country tubular goods.

Thus far through the period of material shortages occasioned by the national emergency, not very much line pipe has been used as a substitute for oil-country tubular goods. Line pipe is needed for other purposes and it has been in too short a supply to permit much diversion.

It will be understood, of course, that oil-country tubular goods are not the sole requisite for oil and gas production. Much more than pipe is required.

(In this connection I will mention exploratory equipment (such as seismic surveying and gravity meter devices), drilling equipment, special "muds", producing equipment, flow lines and tankage, and laboratory equipment. Also, just as important, there is required geological data, manpower, risk capital, favorable economic and legal climate, and the courage and enterprise that characterizes the oil business. I appreciate that this inquiry relates solely to steel in its various forms but other factors should be kept in mind because they are just as essential to the maintenance of an adequate oil supply.

SITUATION PRIOR TO THE COMMUNIST INVASION OF KOREA

It can be stated categorically, and proof can be supplied, that even prior to the Communist invasion of Korea some American companies were having difficulty in purchasing enough oil country tubular goods to satisfy their requirements. They were reaching out to import materials from abroad, not because imported materials were better or less expensive but simply because the domestic mills did not supply pipe as rapidly as the industry needed it.

The National Petroleum Council met in July, 1950, immediately after the invasion of South Korea. The first and principal question put to the Council at that time by PAD's predecessor organization—the Oil and Gas Division of the Department of Interior—was "How much steel does the oil industry need?"

The answer of the Council's Steel Committee was put forth in late October, 1950, shortly after the organization of PAD. The answer with respect to oil production, was "Enough oil-country tubular goods to drill 43,400 wells in 1951." It may be noted that this number of wells was approximately the same as the number drilled by the domestic oil industry in 1950. This was 10% more than the number of wells drilled in 1949 and was a greater number of wells drilled than in any preceding year. That number of wells also approximately equalled the mill capacity for the production of oil country tubular goods and was adopted by PAD as its program.

We should take time out for a moment to explain the expression "wells drilled." To a man searching for oil or gas, a hole he drills in the ground is a well—regardless of whether it produces oil or gas or both or neither and turns out to be a "dry well."

On balance, our statisticians would expect that the drilling of 43,400 new wells in the ground would produce the following results:

Oil wells	24,304
Gas wells	3,038
Dry wells	14,756
Service wells	1,302
Total wells	43,400

In the last two years there has been a slightly greater ratio of dry holes to productive wells. This trend is probably caused by the increasing proportion of exploratory wells drilled.

It must be recognized that we cannot ignore the dry hole crop. It takes the same courage, economic incentives, geological data, finance, manpower and drilling rigs to drill dry holes as it does producing wells. Only the end result is different, not the effort. While it may seem strange to the layman, a typical dry hole also requires a permanent investment in the form of steel pipe that cannot be removed from a well. A dry hole does not require as much steel as a producing well but it does require steel just the same.

SITUATION AFTER THE COMMUNIST INVASION OF KOREA AND PRIOR TO THE ISSUANCE OF ORDER M–46 OF THE NATIONAL PRODUCTION AUTHORITY

After the Communists invaded South Korea the supply situation with respect to the availability of oil-country tubular goods became worse. There were three unfavorable influences at work:

1. A scramble by oil producers to build up their material inventories.

The natural result of this scramble was that the companies with the best historical connections with the suppliers of oil-country tubular goods built up their inventories at the expense of others.

2. A lessening of production of oil-country tubular goods by the steel mills, because steel was diverted into other products.

3. A "black market" in oil-country tubular goods arising from the desire of certain persons possessing oil-country tubular goods or

avenues for the purchase of such goods to sell materials to producers at prices far in excess of the going prices.

PAD'S APPROACH TO THE ALLOCATION OF OIL-COUNTRY TUBULAR GOODS

PAD was created on October 3, 1950, by Secretary Chapman's Interior Department Order 2591. Less than five years had then elapsed since its predecessor—the Petroleum Administration for War—had been dissolved into the peacetime Oil and Gas Division of the Department of the Interior.

Old hands—"retreads" we call them—were called back into PAD's service and were available to build a system for the allocation of oil-country tubular goods. In addition to the "old hands" PAD had the advantage of a fresh approach of new talent brought from the ranks of the independent oil producers.

We were faced with a new situation. The United States had entered World War II with the advantage of a reserve productive capacity for crude oil which amounted to 27 percent of the then-current crude oil demand of 3,700,000 barrels per day. Productive capacity in that amount was simply not available when we entered the defense mobilization program. Incidentally, there is even less excess productive capacity available today.

During World War II, PAW had imposed special Federal regulations covering the spacing of wells to be drilled all over the country. PAD decided that spacing regulations had best be left to the State regulatory bodies.

During World War II, the drilling of new wells declined because of the lack of materials and manpower. Because we had entered the war with a large reserve productive capacity this was not fatal to success at that time. However, the situation confronting us in 1950 was a more difficult one and PAD approached the idea of allocating oil-country tubular goods with three principles in mind: (1) A minimum of interference with normal State regulation as to the drilling of wells; (2) A distribution of available oil-country tubular goods on the basis of the demonstrated needs of the individual operators; and (3) the encouragement of the discovery of new oil fields; as reflected in the special attention paid to the drilling of exploratory ("wild-cat") wells.

PAD POLICY ON THE DISTRIBUTION OF OIL COUNTRY TUBULAR GOODS

PAD policy as to the distribution of oil-country tubular goods was generated in January and February of 1951, and was brought to focus in March. It had been discussed with representatives of the State regulatory bodies in January and argued to conclusion with the National Production Authority even before the creation of the present Defense Production Administration. The PAD plan was announced on March 13, 1951, by Secretary Chapman in a "Four Point Program."

The National Production Authority issued its Order M–46 (for administration by PAD) on March 12, 1951, and scheduled production of oil-country tubular goods for April 1951, at a rate of 157,500 tons. The significant thing about this action was that even in the very early stages of the defense program, and before the Controlled Materials Plan was put into effect or the claimant agency technique

completely developed, the National Production Authority recognized the absolute necessity for scheduling the production of oil-country tubular goods well in advance and in specified quantities. The quantity produced might or might not be adequate, but the principle was all-important and has been adhered to ever since.

In his announcement, Secretary Chapman pointed out that if steel was allocated to mills at this level in subsequent months, it would make possible the production of tubular goods at a rate equivalent to 1,890,000 tons annually. This was the amount certified by the Petroleum Administration for Defense to the National Production Authority as necessary to permit drilling of 43,400 new domestic wells during 1951 and to most export requirements. PAD estimated that this is the minimum number of additional wells needed to maintain oil and gas supplies at levels adequate to meet civilian and military requirements.

The action of the National Production Authority in making steel available in the recommended amount during April indicated recognition of the imperative necessity of developing supplies of crude oil and gas within the continental limits of the United States sufficient to meet emergency conditions and to sustain the development of petroleum reserves in friendly foreign countries.

NPA's action imposed on oil and gas producers an obligation to make use of every practical method to stretch the available steel supply in order to bring about the greatest possible recovery of oil and gas.

It was announced that PAD intended to distribute oil-country tubular goods, so far as possible, without explicit direction by the agency as to well locations.

PAD said that the success of the program would depend largely on the industry itself as well as the regulatory bodies of the various States. PAD believed that petroleum producers would cooperate with State regulatory bodies and the Production Division of PAD in working out methods of using tubular goods that would bring maximum returns of oil and gas with minimum expenditures of steel.

A Four-Point Program was recommended to oil and gas producers and State regulatory bodies, as follows:

1. Examination by State regulatory bodies of existing rules governing well-spacing, with a view toward revision to permit drilling new wells farther apart, where practical, and producing more from each well. Such action would place greater petroleum reserves and productive capacity behind a given amount of tubular goods. Adjustments by State regulatory bodies in allowable production quotas from individual wells would be necessary, however, in order to assure operators of equitable participation in the total allowable production from each field.

2. Increased use of pressure maintenance and repressuring operations in oil and gas reservoirs through operation of reservoirs as single units, in order to maintain maximum efficient rates of production at as high a level as possible for as long a period as possible, thus increasing ultimate recovery.

3. Careful examination of field rules and existing practices in the use of tubular goods for drilling wells, with a view toward reducing requirements for surface and intermediate-string casing by shortening or eliminating strings of this large-diameter pipe, or making use of smaller, lighter pipe.

4. Wider use of multiple completions—the practice of producing two or more petroleum reservoirs through a single well-bore.

Since the initial announcement of the PAD program, our agency has "lived in a gold fish bowl," insofar as its allocation program is concerned. Attached as an appendix to this statement is a schedule of the press releases issued on the subject—more than one per month. Our big problem was to get the comprehension of the allocation plan across to over 5,000 separate operators and to persuade them to fill out their forms and to comply generally with our scheme of operation.

On March 12, 1951, the day preceding Secretary Chapman's general announcement, PAD issued an announcement concerning its new-famous forms, "PAD–15, 16, and 17." "PAD–15" was the "wild cat form" assuring a prompt automatic priority for pipe for a well that might discover a new oil field. "PAD–16" is a form under which operators are required to report their inventories of oil-country tubular goods and their historical and programed drilling activity. "PAD–17" is the form upon which operators are required to record their future requirements for oil-country tubular goods on a quarterly basis.

PAD's plan was explained by its then Director of Production, Mr. Lawton, in an address before a trade association on March 28, 1951, in words which I shall quote in part:

You are all generally familiar with M–46, but let me outline briefly how it works. Beginning in April, five percent of the casing and tubing produced by the steel mills will be shipped to designated warehouses in 13 cities around the country. These stocks will serve as an emergency pool from which tubular goods will be made aavilable, on a preferential basis, for drilling wildcat wells. To the extent that field stocks are not required for drilling or completing wildcat wells, they will be made available to operators who do not have tubular materials in stock, or otherwise available, to meet emergency needs, such as semiwildcat, offset, or drilling obligations. To obtain oil-country tubular goods from the emergency pool, an operator must file with PAD an application on Form PAD–15 for authorization to apply a DO–48E rating.

Since the larger operators will program their wildcat wells by quarters, under another provision of Order M–46 which I will discuss in a moment, the five-percent set-aside device will be of primary benefit to independent producers, who drill 75 percent or more of the wildcat wells in the Nation each year.

Under the Defense Production Act of 1950, PAD has responsibility for assuring that small business shares equitably in the distribution of materials within the petroleum industry. The emergency pool plan was designated to fulfill part of that responsibility so far as the producing segment of the industry is concerned. In addition, the plan was designed to aid in carrying out another PAD responsibility—namely, to assure that sufficient crude oil producing capacity is available to meet defense and essential civilian demands for petroleum and petroleum products, with enough spare capacity to meet any unforeseen emergency demands. By making special provision for wildcat drilling programs, we expect that operators will discover new reserves at a satisfactory rate and thereby maintain the industry's ability to furnish new potential producing areas when and as needed.

Let me turn now to the second feature of the oil-country tubular goods program provided for under Order M–46. Beginning in July, operators will be able to obtain priorities assistance in placing orders for tubular goods to meet their programed requirements on a quarterly basis. Operators desiring to obtain authorization to use a priority rating in placing orders for third-quarter delivery are required to file a report showing unused oil-country tubular goods an inventory and a statement of their programed requirements for these materials during the third quarter of 1951.

In preparing their statements of third-quarter requirements, operators are expected to take account of materials already on hand or scheduled by mills or other suppliers for delivery to them before the third quarter.

The rating may be used only to obtain tubular materials in amounts approved by PAD. Operators will be notified by April 16 of the action taken on

their applications for third-quarter priorities assistance. They will thus know well in advance of the beginning of the quarter the quantities of casing, tubing, and drill pipe for which they will be able to place authorized orders for delivery during the quarter.

PAD has estimated that an annual drilling rate of 43,400 new domestic wells must be reached in order to maintain oil and gas supplies at levels adequate to meet civilian and military requirements. To drill that number of wells over a 12-month period, and to meet export requirements, we have determined that a total of 1,890,000 tons of tubular goods must be produced. That means that monthly production must average 157,500 tons.

During the first quarter of this year, however, only about 130,000 tons a month of tubular goods have been produced, as compared with a rate of about 150,000 tons a month during 1950.

The National Production Authority has recognized the essentiality of tubular goods production at a rate sufficient to meet the goal of 43,400 new domestic wells. But because of heavy demands for steel for other uses, it is doubtful whether much more than 140,000 tons of tubular goods can be produced during April.

In the face of this unsatisfactory and uncertain outlook for tubular goods production, it is apparent, on the basis of the applications PAD has thus far received for priorities assistance on third-quarter drilling programs, that operators are prepared to drill oil and gas wells at a rate substantially higher than is required to meet the minimum annual goal of 43,400 wells. We estimate, in fact, that producers are prepared to step up the drilling rate to at least 52,000 wells a year, and that enough drilling rigs as well as enough proven locations and indicated structures are available to do so.

In other words, although we have not yet been able to assure that enough tubular goods will be produced to support an annual drilling rate of 43,400 wells, operators are seeking to step up that rate by nearly one-fifth.

On April 28, 1951, in an address before the Interstate Oil Compact Commission, PAD's Director of Production discussed the three basic standards for the allocation of oil-country tubular goods in the following words:

First, we have made sure that a specific amount of oil-country tubular goods would be currently available at all times primarily for the use of wildcatters, because this is essential to the discovery of new reserves. Second, we have insisted that oil-country tubular goods should only be used in conformity with minimum, safe, good engineering practice. Third, we have taken the position that no operator seeking an allocation should be permitted to maintain an inventory of oil-country tubular goods in excess of a normal working stock.

In developing PAD policy and standards for the allocation of tubular goods, we first found out from NPA what the total production of such material would be for the third quarter of 1951. From this total, we deducted the amount that was needed for export. From the balance, we set aside 5 percent to be shipped to warehouse centers in 13 cities around the country to be used primarily for wildcat operations.

We decided to allocate the remaining tubular goods to individual operators in two bites. First, a primary allotment consisting of a substantial percentage of the total available for allocation. Distribution in individual cases is based on actual 1950 operations, with an adjustment for inventory.

The remaining part of the tubular goods to be allocated is available for distribution through supplemental allotments. These will be granted to individual operators on the basis of detailed consideration by PAD of the particular needs of the applicants.

In setting up our primary allotments, we divided applicants for tubular goods into two groups: (1) those who drilled 41 or more wells in 1950, and (2) those who drilled 40 or less.

In order to put the companies who drilled 41 wells or more in 1950 on a comparable basis, the actual footage drilled in 1950 by each operator was multiplied by a factor representing the minimum safe weight of tubing and casing required by good engineering practice. After an adjustment for inventory, this computed tonnage is the basis for the primary allotment to each operator who drilled 41 wells or more in 1950. In the case of smaller operators, the primary allotment was made on the basis of the actual number of wells drilled during 1950. Each primary allotment provided sufficient tonnage to drill a given per-

centage of the wells they drilled in 1950, corrected for the depth proposed for 1951.

The tonnage to be made available in supplemental allotments to either small or large operators will be considered by PAD's Production Division on an individual basis. In making decisions in individual cases, consideration will be given to the necessity for drilling additional offset and development wells because of new discoveries and field extensions. Within the limits of the steel available, the Production Division intends to distribute supplemental quantities in such a way as to provide adequately for carrying out the necessary and unexpected development programs of individual operators.

I want to point out to you that the industry is now seeking to step up drilling to an annual rate of 52,000 wells. Inasmuch as our calculations are based on the tonnage needed to drill 43,400 wells, it is quite apparent that a substantial percentage of the tubular goods required to sustain this higher rate must be obtained by the operators from sources other than PAD allotments. Each operator, in other words, must carry part of the burden by obtaining additional tubular goods from second-hand, conversion, or foreign sources, if he wishes to expand his program beyond the point possible through PAD allotments.

Ever since the PAD policy on the allocation of oil-country tubular goods was formulated and announced our Production Division has been busy—very busy—carrying it out. No important changes have occurred since—only refinements. Progress has been reported to the industry from time to time in the press releases mentioned in the appendix to this statement. Those press releases portray quite completely the progress of the program. They report, quarter by quarter, the allocations made, the factors involved, and the principles used.

For example, we announced on April 17, 1951, that the industry had requested priorities assistance to purchase sufficient material to drill wells during the third quarter of 1951 at a rate equivalent to an annual rate of 72–75,000 wells.

This figure, obviously unattainable in the aggregate is cited merely to indicate the extent of the claims for materials made against us.

The system we have been using for allocation has been under constant surveillance by industry. Our Production Division personnel has participated in literally thousands of interviews with representatives of individual companies.

In addition, we have met with (1) the Interstate Oil Compact Commission, (2) the State regulatory bodies, and (3) representative industry groups.

On November 14, 1951, we published "PAD Standard No. 2" (see PAD press release 189) under which oil-country tubular goods are distributed. On December 27, we published:

(1) The 5,079 individual allotment actions taken by us with respect to oil-country tubular goods during the third and fourth quarters of 1951; and

(2) Complete data with respect to over 150 of the larger operators; that is, those who, historically, drill 41 or more wells per year.

We will publish equivalent data in the quarters to come, as fast as we can accumulate it and tabulate it.

Before closing this general statement and presenting PAD's staff for questioning, I want to make two general comments—one as to the wildcat program and the other as to PAD's general philosophy in the allocation of scarce materials.

As to the wildcat program, I want to claim some credit for the industry and, incidentally, for PAD. During the last three quarters of 1951 a total of 53,350 tons of oil-country tubular goods was delivered

to operators from emergency field stocks. 10,395 wildcat wells were drilled in 1951, an increase of 21.9 percent over the 1950 figure of 8,529 wildcats.

Stated another way, while total wells drilled in 1951 were approximately the same as in 1950, the number devoted to exploration increased by more than 20 percent. Considering the fact that there was not in 1951, nor is now, any real shortage of petroleum products in this country, it is obvious that the planned diversion from development wells to exploratory wells was instrumental in developing additional underground reserves without impairing present supply. This emphasis on exploratory activity resulted in the discovery of 1,790 new pools of oil or gas, and resulted in a net addition to our known reserve of liquid hydrocarbons of 1,844,000,000 barrels.

So much for wildcats and the development of a new reserves of production capacity.

Finally, I want to reiterate PAD's philosophy concerning the allocation of controlled materials—steel, copper, and aluminum. What I have to say applies generally, not only in the field of oil production but in all other phases of the oil and gas industries. We conceive PAD as a purely temporary agency, created to assist the Secretary of the Interior in discharging the responsibilities delegated to him under the Defense Production Act. We conceive our duty to be that of making a fair and equitable allocation of scarce materials to units of the industry with a minimum of disturbance of the competitive pattern that existed when controls were first imposed. Our fondest hope is that when PAD is dissolved we will have interfered not at all with normal competitive forces.

We conceive of ourselves as umpires, not as dictators.

Mr. BURTON. Thank you very much, Mr. Frame, for that very clear and informative statement.

In entering the questioning period, we note you have a number of associates, and, before answering any questions, will those associates be good enough to identify themselves for the benefit of the reporter and for the committee?

Mr. FRAME. If you like, I would be glad to introduce these gentlemen now if it would help the committee any.

Mr. BURTON. I think that would be well, but they might make a brief statement before they answer questions, even after being introduced.

Mr. FRAME. To my left is Mr. Elmer E. Batzell, who is Assistant Deputy Administrator and General Counsel of PAD.

Next is Mr. R. M. Morrison, who is Director of our Materials Division.

Next is Mr. Don Teis, who is Assistant Director of our Domestic Production Division.

Mr. R. G. Lawton, now a consultant and former Director of the Production Division of PAD.

Mr. R. V. Sellers, who is an analyst in the Production Division.

Mr. Foree, who is presently the Director of our Production Division.

Mr. Hasty, who is the lawyer assigned to the Domestic Production Division.

Mr. D. E. Chandler, analyst of Domestic Production Division.

In addition to that we have a few other people in the room we may call upon if they are required.

Mr. BURTON. Thank you.

Mr. Patman?

Mr. PATMAN. No questions, Mr. Chairman.

Mr. BURTON. Mr. Seely-Brown?

Mr. SEELY-BROWN. I would like to refer to the paragraph at the very top of page 15 of your prepared statement, Mr. Frame:

> Each operator, in other words, must carry part of the burden by obtaining additional tubular goods from second-hand, conversion or foreign sources . . .

and so forth.

Can you tell me how many of such goods are brought into this country from foreign sources?

Mr. FRAME. It is a difficult question to answer precisely, but I will ask Mr. Morrison to answer it.

Mr. MORRISON. My name is Morrison, Director of the Materials Division.

That is a question we have been trying to determine for some time. The statistics as reported publicly include all types of pipe, and to break it down to determine the amount of actual oil-country tubular goods has been almost impossible.

We estimate that there is in the neighborhood of—well, I have some figures right here if I may take just a minute to locate them.

I have a note here of 75,000 tons a year, and I believe that just about checks with what I had in mind, but, as I say, it has been almost impossible to determine. We asked a good many importers in the area where most of it was coming in and at one time they had a figure in mind of 50,000 tons a quarter, or 200,000 tons a year. That has been dropping off.

I believe that is the figure that would probably be substantiated for 1949, which was probably the peak year when they were bringing in foreign oil-country tubular goods, but that has been dropping off so this figure of 75,000 tons is probably as close an estimate as can be made.

Mr. SEELY-BROWN. How does the price of that imported tubular steel compare with the price that you have to pay for domestic tubular steel?

Mr. MORRISON. It is a minimum of 50 percent higher and the average is probably 75—in other words, 175 percent of the domestic price—and it goes as high as 200 percent of the domestic price.

In other words, it is practically double in many instances.

Mr. SEELY-BROWN. Do you know if any of the steel which we are exporting under our various programs to Europe, how much of that steel is being turned into tubular shapes and then being brought back to this country? In other words, as regards this tubular steel which we are importing, how much is actually steel which went out of our country and then came back?

Mr. MORRISON. I have not seen any figures on that, but I understand there has been some of it. There are no publications whatsoever on that.

Mr. BURTON. In that connection, how do you account for the dropping off of the importation?

Mr. MORRISON. Because PAD has attempted to discourage the cross-haul, but obviously we required that tonnage of 200,000—anywhere from 150 to 200,000 tons that had been coming into the States; we required that to supplement the available tubular goods that were presently here. While it is a very complicated system that just involves not only the oil-country tubular goods, but all of international trade, we did not want to take any drastic steps which could have been taken on the order of attempting to obtain a price ceiling, for instance, which would have immediately stopped importation.

We have attempted in our discussions with the foreign operators—and the Office of International Trade and ECA—it is MSA now—have been most helpful in corresponding with their Paris representative—to determine just what that steel is and to direct the foreign steel into the hands of the foreign operators. We, in turn, were just talking about the possibility of including the foreign oil-country tubular goods against the domestic allotments. We have tended to discourage it to some extent, but we just do not dare discourage the amount coming in unless we can offset an equivalent amount going out.

Mr. BURTON. Do these figures indicate, in your opinion, any lessening of the acute shortage of the tubular goods?

Mr. MORRISON. Yes, there is a lessening of the shortage. I understand, due to our psychological threats, let us say, to include foreign pipe in their local allocations, the foreign operating oil companies are beginning to get more offers abroad. That is what we are trying to do anyway because then they could purchase it with soft currency which most of them have available.

It is reported that the price is becoming a little bit more within reason and the offerings are becoming a little more substantial.

We think that in the pattern of the production—for instance, all of the imported steel and all of the conversion steel is in the small sizes, the 5½ and the 7 inch—if the foreign steel would be confined to the 5½ and 7 inch and used abroad, then in the United States we could well afford to ship sufficient tonnage to supplement their drilling program in 7⅝ inch and above. We have what you might say, if not an overproduction, we are in balance in the larger sizes of casings.

To repeat, what we are attempting to do is force the 5½ and 7 inch to be made to the fullest extent in Europe, then we will supplement their requirements with the 7⅝ to the 13⅜, which is in quite plentiful supply here and we will have a balance which will enable us to take care of the foreign and stop a lot of this cross-haul.

No one will purchase foreign pipe in other than the 5½ and 7 inch size because they can stretch their tons and drill that many more feet.

Do I make myself clear?

Mr. BURTON. I think so, sir.

I take it it is your purpose to have foreign pipe used as largely as possible for foreign needs.

Mr. MORRISON. Yes.

Mr. BURTON. And supplement that only with the larger pipe from the States?

Mr. MORRISON. That is what we would like to do, sir. That would be the ideal situation.

However, you have other complications there. MSA and OIT and so forth do not look with favor—and probably properly—on any

drastic step that would stop the sale or importation of foreign oil-country tubular goods because that is a very small segment and they have to sell something to get American dollars. They keep watching that exchange problem. We have to handle it very gently and just try to encourage what we are attempting to do without drastic steps to force it.

Mr. BURTON. I take it your attitude is to discourage it without prohibiting it?

Mr. MORRISON. That is right.

Mr. BURTON. Do you have further questions along that line, Mr. Seely-Brown?

Mr. SEELY-BROWN. I have one other question I would like to ask as regards to a sentence that appears on page 16 of your prepared statement, in about the middle of the last paragraph. I am certainly not qualified to challenge your statement. I just hope it is correct. You said:

> Considering the fact that there was not in 1951, nor is now, any real shortage of petroleum products in this country . . .

Is that a debatable statement?

Mr. FRAME. No, sir, that is not a debatable question at the present time. I judge, Mr. Seely-Brown, since you are from Connecticut, you have been concerned about this publicity about a possible oil shortage on the Eastern Seaboard.

Mr. SEELY-BROWN. That is correct.

Mr. FRAME. That was a threatened shortage that was created by the effect of economic controls or price ceilings which were established. In brief, it amounted to this, that when the price freeze went into effect the prices of heating oil were frozen at the Gulf Coast and on the east coast. Approximately 70 percent of the heating oil used in the Eastern Seaboard comes from the Gulf Coast.

The controls on tanker rates were not effective for reasons which I will not go into, and the tanker rates went up very substantially so that a large segment of the distributors of heating oil on the Eastern Seabord were economically unable to purchase on the Gulf Coast and transport to the Eastern Seaboard adequate quantities of heating oil to meet the demands of their customers.

PAD recognized that situation, which was an artificially-created situation and has since that time, with the cooperation and very excellent cooperation of industry, organized a voluntary agreement, and established a mechanism for seeing that the have-nots are supplied with the oil which is available. The twelve major refiner-suppliers have agreed to transport at their own expense the additional quantities of oil needed and as of Monday of this week the Petroleum Administration, through its office now functioning in New York, had allocated about thirty million gallons of additional heating oil to those cargo buyers who had been unable to secure adequate quantities of oil, so that there will be no shortage of heating oil on the Eastern Seaboard this winter and there was no physical shortage of oil. It was simply an artificially-created shortage due to price ceilings.

Mr. BURTON. Mr. Dalmas, do you have any questions?

Mr. DALMAS. Mr. Chairman, Mr. Riley and Dr. Boatright will handle most of the questioning.

Mr. BURTON. Dr. Boatright——

Dr. BOATRIGHT. Mr. Chairman, I would like to ask for a brief explanation of the basic premises involved in the development of the "A" factor for the industry.

Mr. FRAME. Mr. Lawton, would you like to speak on that since it was under your jurisdiction that it was developed?

Mr. LAWTON. We started out working out the allocation of tubular goods from the basic historical fact that for 20 years in the oil industry, 11 tons per thousand feet of hole of new domestic tubular goods were necessary to carry on the drilling program. That was also borne out in the year of 1950 when 1,760,000 tons of new tubular goods were produced in the United States and 160 million feet of holes were drilled. You can see that there are 11 tons per thousand feet. That, of course, was not all the tubular goods used. There was second hand, foreign and conversion added to that and we estimated 2,200,000 tons per year. Therefore, to be realistic we recommended that for the drilling of 43,400 wells, we have 1,890,000 tons of tubular goods. We have never deviated from that 11 tons. Also, safety factors on Spang-Chalfant tables of one and one-eighth in tension and two in collapse. The average well of 3,600 feet will use 11 tons per thousand of tubular goods.

We then found that for every hundred feet of increased depth it was necessary to add 0.0897 tons per thousand feet. That was for the average drilling in the United States.

After we had run out a table on that to all depths we then took by areas, through difficult conditions such as in the Gulf Coast where you have terrifically high pressures, and your use runs as high as 22 tons per thousand feet, we called in the Gulf Coast expert on that matter and individually treated each company's application for that type of well and granted them a bonus in tonnage for the Gulf Coast. We did not consider second-hand material in the Gulf Coast for the simple reason that in the depth of the well you needed new, high grade, high tension, high collapse pipe. Therefore, we gave them full allocation, disregarding the difference between 11 tons and what they would normally use by the use of conversion, second-hand or foreign.

That was also followed in all other areas where they used a long middle string. Now a long middle string is your largest sizes, nine and five-eighths, ten and three-quarters, and eight and five-eighths that are used in the drilling of deep wells and where your upper formations must be shut off. That is the West Texas basin, your salt springs, and it consists of a lot of tonnage. When you go into your deep wells you must deviate from the 11 tons and allow added tonnage.

I think that basically is the program which we have developed.

Dr. BOATRIGHT. Would you inform us who actually developed the 11 tons per thousand basic formula?

Mr. LAWTON. I was. I borrowed a man from the Materials Division, Mr. Raymond Bean, who is a man with 35 years' experience in the oil industry and he and I were solely responsible for the initial development of the program. We submitted it to the whole PAD, Mr. Frame, Mr. Batzell and so on, and had many meetings on it.

Dr. BOATRIGHT. Mr. Bean was a member of the PAD staff?

Mr. LAWTON. He was a consultant to the Materials Division.

Dr. BOATRIGHT. No one in industry submitted a formula which was then adopted by PAD?

Mr. LAWTON. That is right. We visited the people from the industry for their advice and we also took the historical experience of a number of companies upon which we knew we could rely and from those we found out that their actual use coincided with the formula that we put into effect.

Dr. BOATRIGHT. Were a considerable number of people within industry consulted?

Mr. LAWTON. Yes, sir. There were two of us and we interviewed from 50 to 150 a day. Each company brought an engineer, a production man, a vice president, a lawyer, and sat down, and said "It won't work."

We had plenty of advice. That went on from 7:30 in the morning until 8 at night.

Mr. BURTON. Can I ask whether the formula you established is in conformity with that used in the industry?

Mr. LAWTON. Yes, sir; it is. The reasons the companies have not found much wrong with this is because Spang-Chalfant tables are recognized in the industry and if they could not do it with this pipe you would sure hear from them but it checks with good practice.

Dr. BOATRIGHT. Why were the various companies divided into groups, namely the A and B groups.

Mr. LAWTON. There are several reasons for that. One of them is our primary charge to give due regard to small business. I am a small-business man myself. When we started out to get the pipe from which to build the program the only facts we could get were from the larger units. The little ones, most of them either did not know, or would not tell the truth. We thought that anybody who drilled 40 wells a year or more would have good statistical information. That is purely an arbitrary breaking point.

Then after we found out what they did, we said, "Well, the balance of it belongs to the others."

Dr. BOATRIGHT. As a matter of fact, you divided them effectively into three groups. That is, a group of large operators who drilled 40 or more wells per year, medium sized who drilled from 12 to 40 wells per year, and small operators who drilled from 0 to 12 wells per year. Is that correct?

Mr. LAWTON. In our thinking we did several things. We broke it down into 30 big units, 100 big units, and 150 big units. We went a lot further than it actually shows in there but we finally came up with the 40, the 41 and above, 12 to 40, and zero to 12, because each was a class with different problems and different information.

Dr. BOATRIGHT. As a matter of fact, I think you missed my question. You divided industry into groups because you recognized that the various members of each group, because of their size and scope of operations, had similar problems, is that correct?

Mr. LAWTON. Do you have something to say on that, Mr. Batzell?

Mr. BATZELL. I am Elmer Batzell, Assistant Deputy Administrator and General Counsel.

We want to go back at this point to a little bit of the problem with which we were confronted in putting this program into effect. As has been stated by Mr. Frame, we are confronted each quarter with handling in excess of 4,000 applications. We have to handle those with expedition.

When we started this program, we knew that we were faced with that large number of applicants, and we also knew that we had to put together a system whereby our basic figures which Mr. Lawton has recited to you, could be validly checked within the confines of a two-man staff, plus what were being added day by day, and within the time period which was going to get the original applications out for the third quarter by April 16. That is quite a formidable administrative problem. One important consideration that led to this distinction between so-called Class A and Class B operators was this: We attempted to estimate approximately the number of larger operators who would use, on a historical basis, 60 percent to 65 percent of the total tonnage, and which in total number of applicants was still sufficiently small as to enable us to give them, with our limited staff, specialized and particular attention, both in the examination of their applications and in deriving from their applications confirmatory figures which would buttress, for example, the "A" factor coefficient which has been discussed, and the other statistics which were used in the basic concept of this allocation system.

Now administratively, we were therefore limited to a group which was arbitrarily set at something under 200. If we could get under 200 applicants using the large proportion of the tonnage to give this special attention to, we would be in a position to do a firm evaluations job, checking our figures all the way along. So that at the outset, we came to the conclusion, based upon historical data which appears in the API and which appears in the various trade magazines, such as the Oil and Gas Journal; which appear in the State regulatory commissions and the like, that a break at 40 wells would give us that result. Those who drilled over 40 wells would be sufficiently few in number and sufficiently large in drain on material to give us verifiable statistics and permit us to give individual attention and treatment to those very large numbers.

The other 4,820 that we had to deal with could, utilizing, say, 35 percent on the average historically of the total oil-country tubular goods, could then, in the initial stage—we are talking now of the spring, a year ago—be handled by more mechanical means and less direct attention, during which we could build up our staff, check our figures and further move into the contemplated fourth quarter allotments.

Now subsequent to that, we found that the principles applicable to this large group of over 40—large in quantity take, small in number—could be applied on down the line, step by step, through the A group until, as you suggest, at the present time in actual fact, the group of individuals drilling over 12 wells per year is treated on virtually the same basis regardless of total number.

The distinction between the 40-well operator remained as a convenient administrative device. It avoids the confusion of constantly changing Government regulations and rules and permits administrative flexibility, but it does not exist as a barrier between the nature of treatment in the analysis of the case, between the large Class B operator on the one hand and the Class A operator down to 12 wells on the other.

Now when you get below 12 wells per year, you get into that bottom part of this triangle, the very large number of people; and of

course to the smallest operator, conditions of financing, availability of rigs, availability of locations, the dry hole next door, or the producer next door, have a great deal to do with whether at any given time he is going to sink a well.

He has no broad base of average availability of locations and the like which permit an averaging-out process such as is true with the larger operator, so you have to give him a special and different treatment.

Whether it should be 12 wells, 14 wells, or 8 wells depends in part on your availability of oil-country tubular goods, the indications of the smaller operators, of their familiarity with the system, the speed with which they file the forms, the accuracy of the information which appears on the forms, the elimination of confusion which necessitates individual checking and the like. All of those are factors which will in part dictate where there is a breaking point between, say 8, 12 to 14. But in the main you have today, over this development period, starting with a purely administrative breakdown for checking purposes and administrative handling, a completely identical program down to 12 wells, and it may be 8 and it may be 14 in the quarters to come.

Dr. BOATRIGHT. If I understand you correctly, the division into groups originally had nothing to do with their size or scope of operation but was purely an administrative division to facilitate PAD's calculations and operations, is that correct?

Mr. BATZELL. It was not purely that but it was in large part that. Mr. Lawton has given you some of the other considerations which led to the selection of other groups. I was simply supplementing Mr. Lawton's statement by pointing out these practical administrative problems which also bore a part on the selection of whether it was 40 wells or not. It would have been 35, it could have been 45, but the point was that you had a limited group with which to deal who used historically a large proportion of the tonnage and could give direct attention to that group, thereby verifying your basic assumption figures, checking all this data which we had, by actual operator practice, and at the same time give those people direct attention in the way of examining their applications so that you could pull their tonnages down.

Dr. BOATRIGHT. As a matter of fact, as the thing has grown up to the present time, you now have, in effect, a B Group which includes from 150 to 180 operators, and a nine-well to 40-well group of "A" operators, and then the small group of zero to eight-well "A" operators, is that correct?

Mr. BATZELL. Fundamentally that is correct but, as I pointed out, that distinction of above nine and above 12, depending on what quarter you are talking about, and above 40, so far as the operation of the standard is concerned, at the present time has been largely erased.

Dr. BOATRIGHT. As a matter of fact, all groups are treated somewhat differently are they not? In the A Group they are required to file a Form 32, are they not?

Mr. BATZELL. A completion form?

Dr. BOATRIGHT. Yes.

Mr. BATZELL. Yes, sir.

Dr. BOATRIGHT. The B Group is not required to do that, is it?

Mr. BATZELL. I think that is correct.

Dr. BOATRIGHT. Then there is a difference in treatment between the A and B Group?

Mr. BATZELL. Yes, but I am talking about what happens in the allocation process. You are correct.

Dr. BOATRIGHT. The point I am getting at is this: The three groups are treated somewhat differently. True, you have minimized the differences in treatment but they are still treated differently.

For instance, in the A Group, the application of the "California" factor, if you will check your own figures, you will find that the application of the "California" factor to the A Group operators is not the same as for B Group operators, and I will tell you why. It is because of the way the mechanics of the calculation occurs.

In the B Group operators, the "A" factor or the company experience, whichever is greater is used as the "A" factor.

In the A Group, the nine to 40 well group, the history factor is taken. That means as long as an "A" operator's history factor is greater, he is treated the same as in the B Group but if his history factor is less than the calculated "A" factor, he is penalized. He does not get the advantage of the "A" factor, so there is a slight difference in treatment there.

Mr. TEIS. I think that is a factor in all of our basic allocations. We have worked on the basis that we would not allocate to an operator in excess of his indicated or demonstrated needs, so that is the reason for taking the factor which is indicated in his usage as the basis for allocation.

Dr. BOATRIGHT. If that is true, why doesn't it apply to the B Group too?

Mr. TEIS. To the B Group operators also?

Dr. BOATRIGHT. Yes.

Mr. TEIS. I am not sure, but I believe it would.

Dr. BOATRIGHT. I think if you will check your calculations you will find that the B Group, in the application of the "California" factor, in effect takes a calculated "A" factor, or his experience factor, whichever is greater, and that in the A Group his experience factor alone is taken, regardless of which is greater or less. Now the two groups are not being treated the same if that is true and I think you will find it is if you will check your method of calculation.

The point that I am leading up to in this question, gentlemen, is this: I think that PAD properly has divided the oil industry into groups whose problems are fundamentally different and in fact bind the members of the producing industry into a group of large operators, a group of medium operators and a group of small operators. Whether that was the intention or not, that is what you have done.

Now I would like to ask why the number of wells drilled in the history period was used as the division point, rather than footage which has more relation to the scope of operations.

Mr. FOREE. Would you ask your question again, please.

Dr. BOATRIGHT. Would you explain why you used the number of wells drilled during the history period as a basis for dividing the oil industry into these various groups, rather than using footage, which has more relationship to the actual size of operations and would result in grouping which would get together members who have more comparable problems.

Mr. TEIS. The reason for the selection of number of wells rather than footage is primarily that the number of wells is more definite and gives a more precise figure and definite figure as to record, than footage.

Ultimately in the end result, the outcome is the same.

Mr. FRAME. Explain why it is more definite.

Mr. TEIS. The actual total depth of a well is not a precise figure, as you well know, sir. The measurements, as taken by two or three different service companies, or the company representative on the well, may differ slightly.

In addition to that, the number of wells is a precise figure. Each operator knows exactly how many wells he has drilled. It makes it easier for him to consider this thing and to determine which group he falls in if you are talking about the number of wells than if you are talking about footage. He may know how many wells he drilled, but not how many feet he drilled.

As I say, in the end result there is no difference.

Dr. BOATRIGHT. As a matter of fact, in connection with the depth error, what is the depth error with modern methods of measurement?

Mr. TEIS. It might be a foot or so and it might be somewhat larger.

Dr. BOATRIGHT. In general, wells 7,000 feet deep may be measured with an accuracy of plus or minus one or two feet, is that correct, sir?

Mr. TEIS. That is correct.

Dr. BOATRIGHT. So that is a very minor correction, is it not?

Mr. TEIS. The fact is that the operator does know and is familiar with the number of wells he drilled. We have started out on that basis.

As we see it, there is no reason for confusing the thing by changing to a footage calculation when there is no effective difference.

Dr. BOATRIGHT. If your argument for using wells is sound, why do you not use wells in allocating steel between groups instead of footage?

Mr. TEIS. Maybe Mr. Lawton can better answer that.

Mr. LAWTON. I want to say this about our original thinking in this thing: When you drop below 40 wells—well, we will take up to 12 wells—then you have an individual independent operator who digs two or three wells a year. Last year he was digging in a two thousand foot field and he dug three wells. Then he comes in in the fourth quarter for his allotment and we did grant him, under the original plan, a fourth of his yearly programs as a primary allocation. But instead of taking 2,200-foot wells or 2,000-foot wells, he has moved to southwestern Texas and wants to dig two to 7,500 feet. That is one of the basic reasons why you cannot treat the small operator on footage. He bobs around and his program changes two or three or four hundred percent.

Your larger units, 40 and above, will change ten or fifteen percent maybe, but that is the maximum, and that is on 200 to 1,000 wells. You can use footage there, or you can use wells. You can combine both of them, which we did.

When your small operator comes in and wants two wells, we look at his 1950 history, or we did. We will take the fourth quarter. We look at his 1950 history. We see that he dug three wells so we allocate him one. But he indicates that his well is going to be 7,500 feet. We follow the practice of granting him one full well, although he only

dug 2,200 feet the year before, a total of 6,600 feet in three wells. We grant him one well of 7,500 feet because it was a policy of ours to grant each small operator one complete well.

Now, you have that variation in there and your smaller units do not keep sufficiently accurate records to run them on a footage basis. They just keep their business on no books, and the figures are loose.

We ask how deep they dug their well. They say, "We dug it about so and so." The figure was not stable and we did not want to use it and therefore we went on a well basis. They know how many wells they dug; they remember that.

Dr. BOATRIGHT. Do you not think in the major division between the Group A and Group B operators that footage would throw together members whose problems were more comparable, rather than using wells?

Mr. LAWTON. We do use footage primarily in our calculations. In other words, you give them their 1950 footage and it is a 1951 depth factor, an "A" factor that that is their primary allocation.

Mr. BOATRIGHT. In dividing between the A and B Groups you use footage, do you not?

Mr. LAWTON. Do you mean the total pipe available?

Mr. BOATRIGHT. In dividing the available steel between the A and B Group operators, you use footage?

Mr. LAWTON. That is true.

Mr. BOATRIGHT. Now, if footage were used in dividing the groups into A and B Groups, would that not result in the members of each group having more comparable operations than as it is now?

Mr. LAWTON. Only if you could get all the information, which you never could do from the small ones. They cannot even fill their forms out.

Mr. BATZELL. Let me see if I understand your question by restating it: You asked the question this way, and on this assumption, that between A and B Groups as to the initial division of the total amount of steel given to PAD, we use the footage factor. Is that correct?

Dr. BOATRIGHT. That is right.

Mr. BATZELL. That is correct. That is what we do.

Then you asked the question, why then do you not, when you get to these very small fellows, use the footage factor in making the individual allocations? Is that your question?

Dr. BOATRIGHT. No. That zero to eight well operator is a special problem and you recognize that in that you handle them entirely differently and on an individual basis.

Mr. BATZELL. We are not talking about the well basis for the very small ones.

Dr. BOATRIGHT. No, just between the big ones, A and B.

Mr. BATZELL. You are talking now about the larger elements of the A Group and the B Group as a class, is that correct, sir?

Dr. BOATRIGH. Yes.

Mr. BATZELL. I think that at that point there may be some difference of opinion. However, it is my general belief that as a matter of fact using the "A" factors plus the estimated depth of the Class A operator, in fact in the allocation to the larger class operators, you are treating them on a footage basis, although, because of the original circumstances which I described, he is still treated as a Class A operator, but in fact there is no distinction in the allocation between the larger

Class A operator and the Class B operator so far as this footage point is concerned.

Now, I agree with the PAD 32 problem, which is a different one—not on the allocation point.

Dr. BOATRIGHT. The point I am trying to get at is this: Those groups are treated differently, even though the difference is only minor. Would it not be best for industry as a whole to have the members of each group as nearly comparable as possible and my question to you now is: Would it not be better to make the big division between the A and B Groups on the basis of footage rather than on the basis of number of wells? Without making a complete analysis, the indications are that there are something over one hundred operators in the A Group who have drilled more than 100,000 feet of hole during the history period.

In the B Group there are 14 or 15 operators who drilled less than 100,000 feet, some of them as little as 50,000 feet, and my question to you is this: Would it not be better to make the complete break on the basis of footage rather than on the number of wells?

An operator might have drilled 40 wells in a shallow area and only drilled 80,000 feet, yet he might drill ten wells in a deep area and drill 100,000 feet.

Mr. BATZELL. That may be, but what I am trying to present for your consideration is that our effort here has not been to preserve a distinction between the higher elements of the A Group and the B Group but by steps, as we got information to eliminate any distinction between the larger elements of the A Group and the B Group so that in practical administrative effect we had exactly identical and cohesive treatment for every operator above this very small minimum which you and I agree we have to treat in a different way. We have in effect been moving down from this 40 group—or it could have been footage as we got information—to eliminate distinction, and there would be no distinction in principle of operation between the A and B Groups. We could shift to footage, but it has been rather our desire to eliminate in toto that type of distinction maintaining simply this category of A and B, because the industry has become familiar with it. But in the actual allocation, in the standards and in the adjustments, to completely wash out that distinction so far as any difference in treatment between those two groups is concerned.

Mr. CHANDLER. If we reversed ourselves and tried to allot on a basis of wells, we would have actually two approaches on the thing. We could say there would be an allotment of tubular goods on the basis of a given well; well, that might vary considerably.

If you take the wells, times the average footage, that is the way we would do it.

The only ones used on footage would be those just under 40 and just over 40. Since we handle those groups on either side of 40 in exactly the same way, we feel that there is absolutely no difference in the thing. We feel like you are suggesting a change which now has no effect and would only serve to confuse.

Dr. BOATRIGHT. Is it not true that, regardless of what PAD's desires are for the future or how rapidly you are approaching it, there is presently a difference in the way the two groups are treated? I am talking about the broad groups now.

Mr. FRAME. You are talking about the 32's now, are you? With the California factor and the 32, those are the differences that you are pointing out?

Dr. BOATRIGHT. I believe if you will check, the handling is a little different between the two groups.

Mr. FRAME. It could very well be that there might be an improvement by using footage rather than wells. Presently, from what I know of it, I doubt whether it would make any appreciable difference in the allocation. It could have a difference as far as the 32's are concerned. Certainly it is something that PAD will give consideration to and see whether we can improve our system by the changes you have suggested.

Dr. BOATRIGHT. There is another factor that has not been brought up and I wish to point it out: the treatment for wildcat drilling is different in the two groups.

If you have a member of the "A" group who properly belongs with the "B" operators, that means that that operator has access to those wildcat stories in a different manner than if he were a member of the B Group. Is there a difference there?

Mr. FRAME. Yes, there is a difference there.

Dr. BOATRIGHT. It seems to me that in view of the fact that those differences do exist—do you not think that care should be taken to get the groups so that the members of each group are of approximately the same size and type?

Mr. FRAME. Well, certainly we will take that under consideration and see whether we can improve our procedure by proceeding along that line.

Dr. BOATRIGHT. Thank you.

Mr. RILEY. Could I bring up one point here, Mr. Chairman?

Mr. BURTON. Mr. Riley.

Mr. RILEY. It seems to be a little inconsistent to me and perhaps you can point out to me where I am in error, but your basic division of your aggregate allotment to the A and B Group is based upon the footage drilled in the history period. That is correct, is it not?

Mr. FOREE. Not entirely.

Mr. RILEY. I am talking now about dividing it into the two lumps, one for the "A" and one for the "B" group.

Mr. FOREE. It is based upon the reported footage of the B Group as against the total footage drilled by the oil and gas industry.

Mr. RILEY. As long as we have accurate figures for the B Group, we will contain ourselves within that group. You begin to distribute that B Group allocation among the "B" operators and you take the figure of the individual operator, either his base figure or his projected, whichever is lower. Is that correct?

Mr. FOREE. Yes.

Mr. RILEY. Then it appears obvious to me that you come up with this effect: You are saying to the "B" operator here: "As far as the over-all allocation to the B Group is concerned, figure your base period history as a primary factor as to how much you contribute to this bulk amount. Yet when we come to make our determination as to what quantity of his bulk you will get back, you get the base period or the projected, whichever is lower." Consequently, you are giving the advantage to the group of the excess between the individual's projected and his base footage. This assumes of course that the projected

footage is less than his base history; otherwise, the problem would not arise.

Mr. SELLERS. I think I can clear that up a little bit. We have felt that if an operator drilled 300,000 feet in the base period and only wants to drill 200,000 feet in the program period, there is no point in giving him enough steel to drill 300,000 feet.

Mr. RILEY. I find no objection with that.

Mr. SELLERS. As far as the discrepancy between that and the basis upon which the division is made between groups, primarily it is a minor discrepancy.

Mr. RILEY. How much?

Mr. SELLERS. If I recall correctly, there are two operators in the B Group who showed reduced programs. I would have to check on that to be sure.

The discrepancies that arise through depth range adjustment from your initial split are much greater than the very minor variations that comes into play.

I personally do not feel that it would have any appreciable effect.

Mr. RILEY. You feel pretty certain that in your B Group you have only two operators whose projected drilling is below their base period?

Mr. SELLERS. Only two that I have seen and that I recall.

Mr. BATZELL. You have another interesting factor here which I think you should bear in mind. We have thus far been talking solely about the primary allotment. Overage or underage in either case falls into a supplemental pool for the individual treatment problem of the individual operator, where it can be specifically valued.

There is a mechanism over and above this which in part corrects some of the difficulties which may be encountered in any system of division where you draw a line.

You may be familiar with gas rationing in the last war and the problems of drawing the line in Bristol, Tennessee, or east of the Appalachicola River. Wherever the line is drawn, you have a variation on either side and the more difficult your formula is, the more of those slight problems that you have.

We have provided an additional mechanism to wash those out through the supplementary group. I just wanted to call that to your attention.

Mr. RILEY. I would like to get established what I think it a very important point. I have the inference from Mr. Frame's statement that we presently have an excess capacity, for production

Mr. FRAME. We have some excess production capacity today, yes, sir, but not nearly enough to give us any feeling of complacency in our opinion as far as what would be required in the event of a war.

Mr. RILEY. It is perfectly clear to you folks in PAD that the industries not equipped to meet the emergency requirements?

Mr. FRAME. We lack a substantial quantity of what we believe to be reserve production capacity to take care of an emergency, or a war.

Mr. RILEY. That also extends into your refining and transportation and the like.

Mr. FRAME. It extends to refining and extends to a great extent into transportation facilities or pipelines.

We have presented to the Defense Production Administration a program which we hope will be able to start in the third quarter of this year, calling for increased production, increased materials for the construction of refineries and for transportation facilities, in order to provide some reserve capacity to meet the country's needs in event of war.

Mr. RILEY. The figures I saw were quoted by the Bureau of Mines so they probably could be different from your figures, but it looked like our present consumption was above our present production.

Mr. FRAME. That has been true historically. We are importing crude oil into this country and have been for more than a year.

Mr. RILEY. Thank you.

Mr. BURTON. Are there further questions?

Dr. BOATRIGHT. Mr. Chairman.

Mr. BURTON. Dr. Boatright.

Dr. BOATRIGHT. Following up the questions Mr. Riley just asked, I would like to warn PAD, in evaluating their refinery needs, that they should take cognizance of the fact that if excess refinery capacity is built, over and above what the domestic production industry can furnish, that that will automatically create a need for importing oil from other countries. Is that right?

Mr. FRAME. The program presented to DPA is not solely a domestic program. The Petroleum Administration is charged with responsibility for guiding petroleum activities world-wide. So the program that was presented to DPA carried in it the necessary materials for expansion of foreign operations, both from a refining standpoint and from production and transportation.

Mr. MCKINNON. Would you yield right there?

It is my understanding that steel allocations from foreign imports were entirely independent and excluded from allocations of PAD for domestic production. Does PAD have control of all exports for tubular goods?

Mr. FRAME. That is not true. The claim for foreign materials, the materials to be used in foreign petroleum operations, is made through the Office of International Trade and the Mutual Security Agency. However, there has been established an inter-agency committee which functions, which consists of representatives from those agencies and PAD, as well as the State Department and other government agencies through which committee the necessary coordination is obtained to get a world-wide petroleum program.

It is not true to say that PAD directly has authority to regulate the use of materials in foreign operations, but it is working through a government Inter-Agency Committee.

Mr. MCKINNON. The Inter-Agency Committee gives you sufficient power and sufficient availability so as to coordinate the petroleum supplies for the United States in relation to the imports that come in to add to and augment our domestic usage, so you do have complete control to a degree over the whole supply situation?

Mr. FRAME. Yes, but I do not want to leave the impression that this works as satisfactorily as I might have indicated. I mean at any time that you work through as many different agencies as is necessary where you are dealing with the foreign operations, there is a continually recurring series of problems. However, I think in the aggregate it has worked quite satisfactorily.

Mr. McKinnon. Supposing we wanted more petroleum suddenly. Could we get an enlarged supply by an enlargement of export or by more of a conversion to domestic development?

Mr. Frame. Of course, in the preparation of this program, which I have just mentioned, PAD evaluated the petroleum situation worldwide, and does provide for an expansion of foreign operations, as well as an expansion of domestic operations. The achieving of a balance between those is, of course, a matter affecting national security, the desires and willingness of the private companies doing business abroad and domestically to undertake expansion and so on, but the entire effort of PAD is to secure, of course, a balanced program worldwide in so far as that is possible.

Mr. McKinnon. Back in October of 1950 it was decided we would need 43,400 wells to produce the necessary petroleum supplies. In the first of the 1951 operation, how many wells were actually drilled?

Mr. Frame. Slightly over that amount.

Mr. Foree. It is 44,516.

Mr. McKinnon. What did that yield to us in proportion to our present consumption figure?

Mr. Frame. That resulted in a net increase in our reserves over the year presently estimated at almost two billion barrels more oil discovered, more oil in the ground at the end of the year despite what was taken out.

Mr. McKinnon. How did that affect our present consumption?

Mr. Frame. We are actually consuming about 2¼ billion barrels of oil a year. We had, at the beginning of 1950, if I remember correctly, about 25 billion barrels of reserves.

Mr. Lawton. Twenty-nine billion of reserves.

Mr. Frame. Twenty-nine billion of reserves at the beginning of 1950. At the end of the year we added to that almost another two billion barrels.

Mr. McKinnon. How much did consumption increase between the beginning and end of 1951 due to the war?

Mr. Frame. The increase during 1951 would be not quite ten per cent.

Mr. McKinnon. Again would you give me that figure of consumption.

Mr. Frame. The consumption is about 2.25 billion barrels a year.

Mr. McKinnon. That was increased by about 10 percent in 1951?

Mr. Frame. Yes.

Mr. McKinnon. So we added about two billion reserves.

Mr. Frame. Our reserve increase almost equalled our entire consumption.

That was in addition to the consumption. Two billion barrels were taken out and almost two billion barrels were added.

Mr. McKinnon. So the experience in 1951 would adequately indicate that your estimate of 43,400 wells is a pretty good estimate and is meeting the need for our program.

Mr. Frame. It did everything except provide additional productive capacity. That is the ability to produce daily additional quantities of crude oil in the event of a war.

When we went into World War II, the petroleum industry had a shut-in productive capacity which was available almost by opening

the valves, the ability to increase its daily production by one million barrels a day. Fortunately, that reserve capacity was there at that time because it was drawn on very heavily during the course of World War II.

As of the present time, despite all the activities that the petroleum industry has put into this field, the industry has not been able, due to lack of materials, to provide that same quantity of reserve productive capacity which would be necessary in the event of a war.

Today we probably have about 300,000 barrels a day of productive capacity which could be made available if the demand were put upon it, which is not today being used, but we need, in the interests of national security, to have that figure increased substantially over where it stands today, which is the reason that PAD has submitted a program to DPA for the making available of additional quantities of oil-country tubular goods for the last half of this year and for next year so that more wells may be drilled to increase the reserve productive capacity of this country.

Mr. McKinnon. Now, your 2¼ billion consumption includes a great amount of imported oil, does it not?

Mr. Frame. Yes. The total imports into this country for 1951 will average somewhat around 800,000 barrels a day. That is both crude and refined products. I am not sure of that figure exactly, but that is approximately correct.

Mr. Foree. It is about 900,000, I believe.

Mr. Frame. Average for the year?

Mr. Foree. Yes.

Mr. McKinnon. Mr. Chairman, I would like the record to show that I have had a couple of small independent producers come into PAD in recent months seeking allocations of tubular goods and both of these outfits have found PAD to be very efficient and expeditious in granting the requests and they went away feeling that government is in pretty good hands, judging by the PAD.

Mr. Frame. Thank you, Mr. McKinnon. We like to hear a few good things being said because we get plenty of the other kind of things said to us.

Mr. Burton. We are here to develop facts and not to be critical.

It would possibly be well at this time to arrange about succeeding meetings. We are to have a hearing tomorrow at ten o'clock.

It has been predicted that we may not complete in the two hours we will have available tomorrow morning. I am wondering whether you would prefer to carry this over to next week or whether you would mind coming in, say for an evening session, or whether that is against the general practice.

Mr. Frame. Mr. Chairman, PAD is well accustomed to working in the evening. We would be very glad to come in on any evening, any time.

Mr. Burton. I suggest we proceed this evening, if we may, and then we will possibly be able to complete tomorrow morning.

Now the situation with us is this: We have the UMT bill up. I have no doubt that since it is under general debate we could get permission to meet, but we are hesitant about asking because it is of such grave importance that we all feel that we would like to be present for as much of the debate as possible.

Now I notice that we have many people in the audience. I am wondering whether we have men who have come from distant points who would like to testify. If so, that would be a further reason why we should not delay.

May I ask those of you who are from some distance and have an interest in this, whether you wish to testify or not. Will you please rise so that we can see whether everyone is local or whether you come from further afield?

Are there present those who are not from Washington?

(One hand raised.)

Mr. BURTON. May I ask, would you like to testify?

Mr. E. I. THOMPSON (Executive vice president, Texas Independent Producers and Royalty Owners Association). I have no reason to testify unless something should arise which I had not anticipated.

Mr. BURTON. Mr. Dalmas, do you want to continue this evening? If so, at what hour?

Mr. DALMAS. We are at your pleasure, sir.

Mr. BURTON. Gentlemen, you do not mind, then, if we continue this this evening at any hour that will suit the greater number?

Mr. FRAME. We will make ourselves available, Mr. Chairman, at any time you say.

Mr. BURTON. We will reconvene in this room at 7 p. m.

Now before we adjourn, I might say that the Fort Worth Star-Telegram of Sunday, February 24, carried a splendid article by the Star-Telegram Oil Editor, Mr. Menzing, upon the application of the PAD formula to various situations in Texas and the adjacent States.

I wish to include the article as a part of the record of these hearings.

(The article referred to is as follows:)

Inequities in the allocation of oil-country tubular goods under the Petroleum Administration for Defense formula will be developed by a subcommittee of the House small business committee in a hearing opening Wednesday in Washington.

The hearing is the outgrowth of the insistence of Representative Patman of Texarkana, chairman of the full committee in an exchange of letters with Interior Secretary Chapman, that the distribution of materials to small and independent oil producers be made public.

Complaints from these operators had been received by the committee. As a result, Patman requested Chapman to supply figures regarding allocations, drilling programs, inventories, and other data relating to the operations of both large and small operators.

It is understood the objective of the hearing will not be to assess blame, but merely to bring out existing inequities and make constructive suggestions to the PAD.

BASED ON AVERAGES

The PAD formula for allocation of oil-country tubular goods is based on 1950 drilling history and national averages. In other words, the total footage drilled in 1950 divided by the total number of wells of that year would get an average depth for a well. The total tonnage of pipe used in 1950 divided by each 1,000 feet drilled would develop the average tonnage used by the industry.

As forecast by some, in the application of the formula it became evident the industry could not be regulated on averages and it would be necessary for PAD to weigh the formula with factors as would adequately take care of drilling deeper than originally assumed.

Consequently, a series of adjustment factors which began to be ingrafted were ones for the Gulf Coast, West Texas, North Texas, Spraberry and New Mexico.

The West Texas factor said, in effect, that unless one drilled a well in the named counties deeper than the depth assumed by the formula, credit could not be received for additional pipe.

This reasoning also applied with reference to the Gulf Coast counties.

The West Texas counties included in the adjustment were Andrews, Crane, Crockett, Dawson, Ector, Gaines, Glasscock, Irion, Loving, Martin, Midland, Pecos, Regan, Reeves, Terrell, Terry, Upton, Ward and Yoakum.

COUNTIES OMITTED

Omitted were Cochran, Hockley, Lynn, King, Garza, Kent, Borden, Scurry, Howard, Mitchell, Sterling, Coke, Tom Green, Runnels, Schleicher, Winkler and others.

There is more deep drilling in some of the counties omitted than in those included. In fact, some of those included never have had a deep test.

As for the greatly expanding Spraberry Trend, the areas included were North Gail, East Gail, South Gail, Spraberry Deep, Snowden, Huddle, Tex-Harvey, Glass, Hyndman Driver, Germania, Midland, Midkiff, Weddell, Wimbarn, Benedum, Flat Rock, Pembrook, Northeast Upton and Weiner Floyd.

Some of these names cannot be found in Railroad Commission records, while several important areas in the Spraberry were omitted. The commission records fail to indicate a Wimbarn, Northeast Upton, Hyndman, or Midland pool. Just which ones were meant to be included is a mystery to operators.

As for the Gulf Coast, counties far out of the reach of the Gulf breezes were included, whereas such coastal counties as Brazoria, Calhoun, Orange and others were left off.

The same applies in Louisiana.

FOUR COUNTIES

It also is interesting to note the North Texas factor applies only to four counties in the northeast corner of the Panhandle, two of which had no wells drilled in 1951. These are Lipscomb and Hemphill Counties. The other two are Ochiltree and Roberts Counties.

On the other hand, there are no counties in North Texas in which adjustments are allowed, even though wells are drilled there below the depth assumed by the PAD formula. Likewise, there is no factor in the formula that would take care of wells drilled in East Texas below the formula depth, and there is considerable deep drilling in that part of the state.

The majority of operators look upon the PAD formula as one which can be applied only to budget companies. That is, those which budget drilling programs in advance. However, most of the new oil found in the United States is by the nonbudgeting companies, chiefly the small operators who are unable to forecast months in advance what requirements will be.

Because of this came the forecast the historical aspects of the PAD formula made it uniformly unworkable. The thought was the only need for PAD was there were some in the industry who needed pipe and could not get it because it was a short supply item. However, they pointed out, the formula purports to allocate on a historical basis only to those who had been getting the tubular goods.

Mr BURTON. Is there other business at this time?. If not, we will adjourn until 7 p. m. this evening.

(Whereupon, at 11:55 a. m. the committee adjourned to reconvene at 7 p. m. the same day.)

ALLOCATION OF OIL-COUNTRY TUBULAR GOODS

WEDNESDAY, FEBRUARY 27, 1952

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE NO. 3 OF THE
SELECT COMMITTEE ON SMALL BUSINESS,
Washington, D. C.

EVENING SESSION

The subcommittee reconvened at 7:05 p. m., Room 1301, New House Office Building, Hon. Clarence G. Burton, chairman, presiding.

Present: Representatives Burton and R. Walter Riehlman.

Also present: Victor P. Dalmas, Executive Director; Jeremiah T. Riley, Assistant Counsel; and Byron B. Boatright, Consultant, of the staff.

Mr. BURTON. We will call the meeting to order.

First I would like to recognize Mr. Bruce K. Brown, Deputy Administrator of PAD. Mr. Brown, we are very happy to have you with us.

Mr. BROWN. I am so sorry I could not be here this morning.

Mr. BURTON. Dr. Boatright, you may proceed with your questions.

Dr. BOATRIGHT. Mr. Chairman, I would like to have some member of the PAD organization briefly discuss the application of the formula used in determining the allocation of steel to an individual company or an individual and covering the primary allocation, the adjustment figures, and the supplement allocations.

Mr. FRAME. Are you referring to a specific operator or just an example case?

Dr. BOATRIGHT. A sample case.

Mr. SELLERS. In the case of an operator who drills 12 or more wells during the base period, the formula applies in this manner: The average depth which the operator schedules in the four-quarter program period is used to determine the "A" factor from our table. That "A" factor is compared with the operator's actual usage during the base period and with his program usage during the four-quarter period.

If his program usage is less than the "A" factor table his program usage is used. If his program "A" factor is more than the table, then the table is used.

That "A" factor is multiplied by the footage which he drilled during the base period or the footage which he programs to be drilled during the program period, whichever figure is less, and divided by 4,000. The thousand is because the "A" factor is in tonnage per thousand feet. The 4 is to put him on a quarterly basis.

The result of that computation is what we call a quarterly primary need.

The depth range adjustments are then applied.

For the Gulf Coast the adjustment on a well 8,000 to 10,499 feet deep is—his quarter is increased by one-tenth times the percentage of footage scheduled in those wells.

In the case of the Gulf Coast wells, 10,500 and below, it is 27 percent times the percentage scheduled in those wells.

The calibration on the West Texas-New Mexico is 36 percent on wells 8,000 to 10,499, and 29 percent below 10,500.

Adjustment in the Appalachian region where extra strings of pipe must be run to protect coal beds is given 5 tons per well.

The California factor, if the operator's historical usage in California is greater than the "A" factor table, then for the portion of his program which he has scheduled in California, he is raised to his historical usage in that area.

The sum of his primary needs and all of the adjustments is the adjusted quarterly need.

To determine the allocation to be made to the operator, the adjusted quarterly need for the intervening quarter—and I will come back and explain that term in a moment—plus any expansion which was granted him in the supplemental allocation for that intervening quarter, plus the 90-day inventory consideration, plus his adjusted quarterly need, is the total need of that operator.

The amount of inventory which he has on hand, plus the allocation which he received for the intervening quarter is the total supply that he has available. The difference between those two figures is the allocation, if there is sufficient tubular goods available to meet that calculation. If there is not, a percentage reduction is made to bring the allocation in line with the supply of tubular goods.

The intervening quarter comes in because we are always working 90 days ahead of the actual usage. As an example, the second quarter calculations are made early in January. The first quarter intervenes between the inventory report and the second quarter.

The supplemental allocation is made first to adjust any errors which occurred in calculating the primary. We will make human mathematical slips now and then. Also, if any percentage reduction was necessary on the primary, then those operators who request supplemental consideration are brought back up to their original calculated allocation. If anything else is left, it is calculated on an expansion basis and the percentage of expansion which the operator requests is determined by dividing the program footage by the historical footage. We will not consider more than 100-percent expansion.

In every quarter so far, the total supplementary considerations have exceeded the amount available and have been subjected to a percentage reduction.

In the case of the small operator, that is 11 wells or less during the base period, the calculation is followed on a roughly parallel line with the exception that instead of using the "A" factor times the total footage, the tonnage required to drill a well at the programed average depth is multiplied by one-fourth of the wells the operator drilled in the base period. If the operator is an inventory carrier, then the inventory consideration and calculation of the actual allocation is handled in the same manner as in the "B" group. If the operator is not an inventory carrier, then the inventory consideration does not come in.

There are additional ramifications in the "A" group in the case where an operator is figured on what we call a development basis when his historical drilling rate is not sufficient to enable him to keep up development in a new area around the wildcat that he may have hit, or something of that sort. I do not know whether you wish to go into those details.

Dr. BOATRIGHT. I do not think it would be necessary to go into those details.

Have you finished?

Mr. SELLERS. Yes.

Mr. BOATRIGHT. Would you explain the three methods that have been used or the three changes that have occurred in the determination of the actual "A" value used.

Possibly I can help out by questions: As originally applied, the "A" factor was first determined on the basis of the "A" table, is that correct? Then the "A" factor determined from the table was compared with the history tons per thousand of the particular operator during the year 1950 and then the lowest of those two figures were taken and corrected by the .000897 multiplied by footage to determine his "A" factor, was that correct, in the first set of calculations?

Mr. LAWTON. The first set of calculations were made on the actual depth that the operator drilled. Then there was another set made. Well, we set up an "A" factor. That was the 11 tons. Then we set up in his "A" factor for allocation his indicated depth for the quarter under allocation. That is the only "A" factor that I know of that they have had.

Dr. BOATRIGHT. Did you not take his history factor or the table "A" factor whichever was appropriate?

Mr. LAWTON. That is true. We were trying to set this up, and if a good operator said he had 12.2 per thousand and he said he could do it for 11.6, we gave him 11.6. If he came back later and said he could not do it, we brought him back up.

Dr. BOATRIGHT. The second change that occurred was merely changing the history period.

Mr. LAWTON. Putting it on a movable base?

Dr. BOATRIGHT. Yes.

Mr. LAWTON. Yes, that is true. We felt that we should keep current and it would more nearly indicate his actual needs, if we kept moving a quarter at a time.

Mr. BATZELL. May I interrupt at that point?

Dr. BOATRIGHT. Surely.

Mr. BATZELL. It was not a change as far as principle was concerned. It was always intended to move to a moving base so we could maintain currency throughout the period. It obviously took place after a fixed base because we had to start from something.

Dr. BOATRIGHT. Then the final change was made which resulted in the method you are now using where the "A" factor is calculated and corrected for projected depth, and that total figure is compared with program steel as indicated by the company and the lower of the two figures used, is that correct?

Mr. LAWTON. That is the same as the first one we discussed, is it not?

Dr. BOATRIGHT. The first two steps involved history. The last change involved a change from history for comparative purposes to program for comparative purposes, am I not correct?

Mr. LAWTON. If that change has been made, I do not know it. The "A" factor was arrived at. His number of wells plus his projected footage—I mean it was divided into the average footage to give us the projected depth for the new "A" factor.

Mr. BATZELL. That was a part of the first calculation that Mr. Sellers described to you. That was not a change but it was within the original standards and within the original calculations.

Now the moving base of course was something that came into effect after the first set of applications was filed. That was done in a revision to M–46 at the latter part of May. What we did, the original orders having been issued on March 12, was bring into effect the first system and then change it to the moving base throughout, as the CMP plan came into effect.

Now you appreciate that what actually was happening here was that we put into effect in oil-country tubular goods a controlled materials plan about one quarter before the controlled materials plan in general went into force, and as a matter of fact, one of the principal objections and one of the chief hurdles that we had in getting this plan into effect in February was the general problem which confronted DPA and NPA, as to whether any industry should be given what was considered a special privilege of putting CMP into effect a quarter in advance of all other industries. Because of the peculiar nature of oil-country tubular goods and their importance to the program, Mr. Fleischmann agreed that it was important to put this into effect at that time, and that accounts for the moving base changing at the latter part of May, rather than its incorporation in the original March 12 order.

Dr. BOATRIGHT. Am I incorrect then in saying that at the present time, program tons per thousand or the adjusted "A" factor tons per thousand, whichever is lower is now used?

Mr. SELLERS. That is what is now used. That is the table "A" factor or the forecast, whichever is the lesser, and then the value on the table is used at the forecast average depth.

Mr. BATZELL. That was again in the standards in the original computation.

Dr. BOATRIGHT. Was that used in your original computation?

Mr. BATZELL. Yes, sir.

Mr. LAWTON. All the way through.

Mr. BATZELL. If you will examine, I think, the third quarter, barring again arithmetical errors which did occur, I think that you will find that that principle was employed consistently throughout.

Dr. BOATRIGHT. I believe you are mistaken because I have gone through a number of those calculations and it was based on your history of 1950, first, then based on the four-quarter history, and then recently it changed to program history. I believe you will find that is true.

Mr. LAWTON. I really do not believe so because I figured most of them myself and checked them three times.

Let me try to clarify it. We had this program and we divided that by 4 to get a quarterly footage. Then this projected footage, that

gave us an "A" factor. We also applied an "A" factor to that. They said they could figure it. They tried to see what they could do it for. Then we took their projected program for the third quarter. We took their footage. We figured up on this "A" factor table that they had made and if their indicated depth was on the increase for the third quarter of 1951 over 1950 we gave them an average "A" factor. If they said they could do it in that quarter for less tonnage, that was what we gave them. However, the "A" factor has never changed. It starts from 11 tons per thousand feet and it never leaves it.

Dr. BOATRIGHT. I possibly did not make myself clear. I did not intend to convey the impression that the "A" factor itself had changed but in view of the fact that you do use the "A" factor or some other factor, whichever is the lesser, that is where the confusion arose.

Mr. LAWTON. We said this, that we wanted to spread the goods over as much as we could. We told them that if they could do it for less we were proud of them and to go ahead. They understood that and we discussed it with them.

Dr. BOATRIGHT. At the present time you are not calculating the "A" factor, the program tonnage or the history tonnage, whichever is less, or are you?

Mr. LAWTON. I believe the gentleman now doing it would be better qualified to tell you the details of that.

Mr. SELLERS. We are now using the forecast tonnage per thousand feet as reported by the operator, or the "A" factor table at the forecast average depth, whichever is less.

Dr. BOATRIGHT. Does that not tend to throw undue emphasis on optimistic reports?

Mr. BATZELL. I would think the tendency, which is the real objection of the "lesser" rule, is to make a limited quantity of oil-country tubular goods available over a wider range to a greater number of operators. That is the reason for taking the "lesser" rule. I would not think that optimistic reports as against pessimistic reports calculated as they are on a moving base would particularly alter what the operator got in his operation as it has been described by Mr. Sellers.

Dr. BOATRIGHT. The reason I bring that point out is that it is my impression that only the operators who have had fairly close contact with the PAD organization in working out their problems realize the effect that a pessimistic forecast may have on the steel allocation in any particular quarter.

The question I would like to ask is whether or not if program tons per thousand or history tons per thousand or corrected "A" factor tons per thousand, whichever is lesser, were used, would that result in a more equitable distribution between operators.

Mr. BATZELL. May I at least comment to this extent, that in my experience with the petroleum industry, which is not nearly as long as some of these others, I have seldom found the industry pessimistic in attitude. The principal difficulty is perhaps an over-optimism in some quarters; and that we certainly did find in most cases.

You appreciate that the operators, I think, in almost all instances—and Dick Lawton and a number of others made a number of trips around the country to explain this type of operation, as well as our having meetings with the operators and what-not from time to time, and pointed out to them—that it was basically their responsibility, as it always is, to determine what they wanted to do.

In general the determination of what they wanted to do was on the over-side. The estimates ran as high as 52,000 to 72,000 wells as against the 43,000 drilling program.

That is indicative of the tendency of the industry to stretch and flex its muscles and feel that it could do a very much greater job assuming the material was there to do it with.

Mr. LAWTON. One other thing I might add:

One of the influencing factors in taking the lesser amount is the fact that lost of companies are pretty well interested in water floodage. Our calculations are based on average drilling and not water flood drilling. If a company had a water flood project, they might only use four tons to the thousand and they would come out, where we would have 12.2, they would come out to eleven since they were drilling a hundred water flood wells. We would give them actually a bonus, if we took their total footage and ran it up to our A factor. They are perfectly satisfied with eleven tons. That is just one of the things that went into the thinking of this thing. I thought I should mention that.

Dr. BOATRIGHT. The question I am posing to you gentlemen now is, would it not be better from the standpoint of allocation of steel between operators to use the Table A factor adjusted; the history factor for the preceding four quarters, adjusted, or the projected tons per thousand, whichever is lesser, and take the element of optimism out of it?

What would be the objection to doing that instead of what you are doing now?

Mr. SELLERS. If I might cite a specific example of an operator who drilled 14 wells in the year 1951—he drilled 14 dry holes. Now, he would like to drill 14 wells in 1952. He hopes they are not dry holes.

If we use the lesser figure, then he would get about a half a ton per thousand feet of hole and would not get enough pipe in all of 1952 to complete one well. He may drill 14 dry holes again, but he hopes not and we should, I believe, give him enough pipe at least at the start, to drill a couple of oil wells.

Mr. BATZELL. I think it is important to realize that these standards, when confronted with that type of situation, require an adjustment and temperance to fit the particular needs of the operator. As you examine the standards, you will find such things as the opportunity to use a three-year moving base if that better fits the operator's needs, or the opportunity of PAD to effect adjustments in this type of situation on the A factor.

So as to bring us to a very cardinal principle, there is no sense giving a man half of the steel to drill a well. That is not an oil well; that is only half-way an oil well. You cannot have half a horse and use it for transportation. That simple principle is operative throughout this discussion and serves to leaven a bit of the mechanical aspects of the standards.

On the other hand, in order to remove so far as possible any allegations of favoritism and to put this on a common basis, we have to the maximum extent used a formula approach so that we could handle the over-all proposition with each operator fairly equated to the other.

Dr. BOATRIGHT. I would like to ask this question: Why were the adjustment factors adopted for the various areas which were mentioned? Just in general terms.

Mr. LAWTON. I presume you refer to California, the Gulf Coast and West Texas. We based all these "A" factor figures on a national average. Then in the third quarter we called Mr. Karsten in as a consultant from the Gulf Coast. He is an independent in Houston who does dig Gulf Coast wells himself.

We also talked to Mr. Ed Hill who dug a lot of 14,000-foot wells on the Gulf Coast. Then Mr. Floyd Karsten took each individual file of the large companies, such as Humble, Texas, Magnolia, Richardson and other independents who are also working in there and figured the individual wells, the difference in tonnage it took from the national average, and what it took to dig one of those Gulf Coast wells, and made the adjustment.

That was the basic way we went about correcting those inequities.

California traditionally used heavier pipe and larger pipe and they were entitled to an adjustment for their peculiar condition.

The increase of deep drilling in West Texas and other places ran the tonnage up roughly forty per cent in West Texas. Therefore, there had to be an adjustment made out there.

Dr. BOATRIGHT. Now, the reason those factors were adapted was because the "A" factor did not apply.

Mr. LAWTON. That is right, sir. It applied to the majority of the drilling, but not to those areas.

Dr. BOATRIGHT. That was because you had used national averages in determining the "A" factor. Is that right?

Mr. LAWTON. That is true.

Dr. BOATRIGHT. When those adjustment factors were adopted, were any corresponding reductions made in other areas because, if those areas which went into the national average were entitled to more steel, then certainly others who did not have those factors should have a lesser amount of steel than would be calculated. Is that correct?

Mr. LAWTON. That is true.

Dr. BOATRIGHT. Is it not also true that by the use of these "A" factors and the methods of calculating, it is certain that instances can be picked out where one company, for instance, may be allowed 11 tons per 10,000 feet, and another allowed 14 tons to drill to approximately the same depth?

Mr. LAWTON. Do you mean one would be operating with 11 and one with 14 at the same level?

Dr. BOATRIGHT. Yes. By the application of the formula and in determining the "A" factor for various companies for various depths, have you made any comparisons as to the amounts of steel that various companies with more or less comparable operations would have.

Mr. LAWTON. We were very careful to do that. If they varied we would find the reason why.

Dr. BOATRIGHT. They do vary?

Mr. LAWTON. Between companies of the same average depth, but that is due usually to heavy concentration in the West Texas-New Mexico basin or California or somewhere else.

Dr. BOATRIGHT. In those specialized areas, why is the average figure of .000897 used for projecting beyond the depth of 7,500 feet?

Mr. LAWTON. That is not exactly true. It is used to project from the 7,500 factor. That is where the idea was born. At 7,500 feet we figured in areas usually it required a middle string of greater length than the 75-foot drilling.

When you pass 7,500, which is almost universally used, then you take the individual well figure, making the allowances which we predicted which wipes out your .000897 beyond 7,500 or 8,000 feet.

Dr. BOATRIGHT. What I cannot understand is: Your table was designed up to 7,500. In the Gulf Coast you start your adjustment factor at 8,000. Now, in the past you have given that interval between 7,500 and 8,000 the extension from the 3,600 to the 7,500, have you not?

Mr. LAWTON. That is right. The intervals were merely to take a depth from which to work. We called in our consultants and said should it be dropped back beyond that to make an allowance? They said "No."

Dr. BOATRIGHT. You think it is fair to do that when you know it takes more steel in the interval from 8,000 to 10,000, than the interval which you determined from 3,600 to 7,500?

Mr. LAWTON. I did not get that.

Dr. BOATRIGHT. Do you not think it would be more reasonable to take the factor from 7,500 to the 10,500, which is the breaking point, and carry that through the interval, rather than projecting the 3,600 to 7,500 foot tonnage factor to 8,000 feet?

Mr. LAWTON. No, for this reason: Our additional thinking was that when you passed 8,000, that is the place where you increased your middle string from 7,500 feet. You increased the casing which made a drastic difference in the amount used.

We did this: Anybody who felt we had not given them enough tonnage, we reviewed their cases and gave them enough to take care of their wells.

Dr. BOATRIGHT. Did Mr. Karsten pick out the counties to which the "Gulf Coast" factor is applied?

Mr. LAWTON. He did at that time, yes, sir.

Dr. BOATRIGHT. I would like to hand you a map and ask you if on the map colored in purple I have properly indicated the counties to which the "Gulf Coast" factor applies?

Mr. LAWTON. They are checking that and I can answer that question as soon as I check the list.

However, let me say this, that the only counties treated by less in the third quarter were the counties in which applications were made for deep wells. So there may not have been in that third quarter any deep wells in these counties that were not treated.

That is right, sir. There are ten counties on the map and there are ten listed.

Mr. BURTON. Mr. Riley, do you have any questions?

Mr. RILEY. I was wondering if we could develop something which was touched on somewhat this morning in Mr. Frame's statement. It is a rather general subject. It pertains to the vital essentiality of increased oil production at this time.

I think we could place it under that general topic.

We did not get into the figures of how many wells we would need and how much steel we would need to drill those wells in order to meet what the military thinks we should have at this time.

Perhaps Mr. Morrison could come up with some figures on that. I do not mean now, but at some later date you may be able to provide the committtee with some data which would show us what we are short, if we are short.

In brief, what are the capabilities our economy should have to meet an emergency situation?

Mr. FRAME. I think perhaps, Mr. Riley, I could give you this information, which is that the Petroleum Administration has requested of DPA sufficient steel to drill, starting in the third quarter of this year, at a rate of 50,000 wells per year in the United States and for 1953 to drill at the rate of 55,000 wells per year, which corresponds to the 44,516 wells which were actually drillled during 1951.

Mr. RILEY. You have a reasonable assurance that with such an amount of wells you would be able to meet military requirements?

Mr. FRAME. That is a little difficult to answer as categorically as it was asked.

It would obviously put us in a much better position than we are now to meet military requirements. It represents PAD's best estimate as to the amount of drilling that could practically be carried out domestically in the United States with the facilities that are available for drilling wells, locations, finance, manpower and all the other things that go to qualify the amount of drilling that can be carried out.

Mr. RILEY. Thank you very much.

I think now with Dr. Boatright back we might revert to this subject of adjustment factors.

Dr. BOATRIGHT. I believe that you said that the ten counties shown by the map are correct as being the counties to which the adjustment factor is applied in Texas?

Mr. LAWTON. That is true.

Dr. BOATRIGHT. I would like to ask you if there are not wells in Calhoun County being drilled to depths in excess of 9,100; feet in Nolan County to depths below 11,500; in Orange County to depths below 9,000; in Montgomery County, below 13,500. In Colorado County to depths below 11,500; in Jackson County to depths below 9,000; Lavack County to depths below 8,500 feet; DeWitt County below 8,000 and Lubbock County to depths below 11,000?

Mr. LAWTON. Yes, sir.

My general knowledge would indicate that would be correct.

Dr. BOATRIGHT. Why were those counties not included in the Gulf Coast factor?

Mr. LAWTON. For several reasons. There were six of us—there with 4,000 applications. We could not do it all in six weeks. We did the best we could. If anybody was in trouble and indicated it, we tried to help them.

As we got a staff, we have moved out and I think now that any man who needs a long intermediate string in any county where it is indicated that he is so treated that he gets that additional steel regardless of the county. It was merely a matter of lack of personnel and lack of time to cover every fine point in it, in the third quarter.

Dr. BOATRIGHT. In other words, those counties are as much entitled to the "Gulf Coast" factor as the counties to which it has been granted?

Mr. LAWTON. Yes, sir. Any well that needs a long intermediate string, in our thinking, was entitled to that.

Dr. BOATRIGHT. That means then that that factor in the future will be applied onto other counties which have comparable problems.

Mr. LAWTON. I am merely a consultant with PAD but I would assume so.

Malcom Smith did add several to that list. He worked on the West Texas Basin primarily but I know that in all the big company applications we looked at, in the B group and the A group, the smaller ones that had to dig in areas of the Gulf Coast that they got allocations even though some of those counties may not be on this map, that they applied for.

Dr. BOATRIGHT. You mentioned Mr. Malcom Smith.

Mr. LAWTON. Floyd Karsten was here in the third quarter and Mr. Smith was here in the fourth quarter allocation as a consultant for about a three-week period.

Dr. BOATRIGHT. Don't those counties shown on that map for the Gulf Coast reflect Mr. Smith's recommendations?

Mr. LAWTON. He concurred in them, I am sure.

Dr. BOATRIGHT. As a matter of fact, Brazoria and Matagorda Counties have the deepest producing wells in the Gulf Coast area, do they not?

Mr. LAWTON. I think so. It is about 13 or 14,000 feet.

Dr. BOATRIGHT. Also in those counties they have dual and triple completions.

Mr. LAWTON. Yes, sir, and I remember distinctly of having long discussions with the Abercrombie and Harrison group and their associates and I know personally in their calculations they were allowed in Brazoria County, those long middle string in the calculations.

Dr. BOATRIGHT. Now without enumerating the counties, why were the particular counties shown by the map picked?

Mr. LAWTON. They were picked by Malcom Smith.

Dr. BOATRIGHT. Why were those counties picked out? Isn't it true that there are a number of counties that have wells as deep or deeper than the wells in those counties?

Mr. LAWTON. That is true, sir. I think most of the deep production is in those counties. If there are counties that have deep production other than those counties then I am sure those operators would get the same treatment as the operators in the counties shown.

Dr. BOATRIGHT. If they are in the same region, they should.

Mr. LAWTON. Yes, and they will be given the same treatment upon application.

Mr. CHANDLER. Mr. Smith made a study to pick those wells on the Rinehart report. It was not entirely on depth. It was based on an area where an excessive amount of surface pipe was necessary in order to protect fresh water sand or where protection strings were needed to seal off the upper formation in view of projected greater depth where mud weight would be necessary, where a protective string would be required in order to prevent loss of circulation. It was just troublesome areas. Winkler County is an obvious omission, but in going over Rinehart's report it just happened that in that group that perhaps a well to those greater depths was not indicated to have been drilled in Winkler County during that time.

Now we are perfectly willing to recognize the operating problems on these things. In a number of instances the operators have come in and complained that they were drilling in an area where the addes strings were needed. We told them, "Well, give us some information on the thing. If any of you want to get together and give us an outline of additional counties other than we have listed here, we will give you all the consideration in the world."

In other words, this thing—Floyd Karsten did a portion of it and then Malcom Smith came back in the fourth quarter and added to the list. We are perfectly willing to change when the need is indicated.

Dr. BOATRIGHT. Don't you think it is the duty of PAD, who is responsible for properly allocating steel between groups, to make that determination without an operator having to come in and do it for you? Isn't that a part of your duty?

Mr. CHANDLER. That is in all probability true and the efforts along those lines have been indicated or at least the effort is being made by bringing an additional man back in the fourth quarter after Karsten's work in the third quarter and you still come back to the point that it is going to take time, that we have been understaffed and it is just a question of when and how we can best get around to it; and if the operators can help us out by providing the information for us in view of the shortage on our part, I see no objection to their helping us out.

Mr. FRAME. Mr. Boatright, let me amplify on that a bit. Let us start by admitting that PAD is staffed with human beings. I might point out that the Production Division of PAD has been working, I am sure, on an average of 12 or 14 hours a day, 7 days a week, in a converted ballroom in Colonial Village. Yes, we have made mistakes. We admit that. Of course, we have made mistakes. It could not possibly be any other way.

I would furthermore like to point out that you cannot have national planning without mistakes. In fact that is one of the very obvious weaknesses we are all confronted with at any time we are involved in national planning. That is the fundamental advantage that free enterprise has in every respect. We admit, yes, we have made mistakes. We will try to correct mistakes as we find them out. We invite criticism and suggestion. We will try to do the best we can to eliminate mistakes. But to state that it is our duty to be perfect I would like to accept that charge except that I must admit that I do not think it is within human capability.

Dr. BOATRIGHT. Well, you probably misunderstood my intention. The point that I am discussing here is: it seems to me that in your over-all duty to attempt to allocate steel between groups and to individuals within those groups, that fundamentally it is your duty and job to attempt to allocate it as fairly as possible.

Mr. FRAME. That is something, Mr. Boatright, that we have done to the very best of our ability.

Dr. BOATRIGHT. As I understand it, this hearing has been called to assist you in that, and to point out some of the places where it would be possible to improve.

Mr. FRAME. We welcome that, and we will try to make corrections whenever they are pointed out and they can be made.

Dr. BOATRIGHT. Now, referring to the four counties in the North Panhandle area, I would like to ask why those Counties were chosen to be included in the West Texas factor? Those counties, I believe, are colored in orange on the map.

Mr. LAWTON. Mr. Floyd Brett, who is assistant to the Production Manager for Sinclair Oil and Gas Company, who was in charge of B Group, during the fourth quarter, he know of his own personal knowledge that it was needed up there and we accepted his word.

Dr. BOATRIGHT. You do not know then, upon exactly what the basis those counties were chosen?

Mr. LAWTON. A long middle string.

Dr. BOATRIGHT. Well, it is entirely possible that there are additional areas beside those areas?

Mr. LAWTON. Indeed. Indeed.

Dr. BOATRIGHT. Isn't it true that over all, if a factor is applied to certain counties and not in other counties with comparable problems, that the net effect of it is to favor companies whose operations are concentrated in the factor counties, and not concentrated in others, as compared with the average?

Mr. LAWTON. Well, let us take that in reverse. The way these counties were arrived at was by looking at all the deep wells drilled by the large companies that we could find in the quarter. Everybody we knew in the Gulf Coast, everybody who dug deep wells including independents and those are the wells. That is the way we went about it and that is the way the pattern was set.

Dr. BOATRIGHT. I appreciate that but my question was this: If the counties with the same drilling problems and with the same drilling depths—in certain counties where the same drilling problems and the same drilling depths exist, and they are omitted for a particular factor and other counties are granted that factor, is it not true that the companies whose operations are concentrated in the factor counties, enjoy more allocation of steel as compared with operators we knew in the Gulf Coast, everybody who dug wells including indein other counties? Is that not the way it works out?

Mr. LAWTON. If they were drilling in the other counties it would be.

Mr. BATZELL. I think there are two or three points for consideration here and I think they should be effectively considered. One is that we in PAD as a cardinal principle do not attempt to guess where the well is going to be drilled for a given operator. I want to go on and explain that for a moment a little bit down the line. I want to make a couple of other points before I do that.

It is pretty important, we believe, from the point of view of the vitality of the industry, that we in Washington not attempt to second-guess the operator who is putting his steel, his time and his money into the search for oil, because we are operating on the basic presumption that few people in this country are inspired by any philosophy of wasting steel, time or money. They are selecting their locations and the places where they are going to drill in the firm and confident hope that there is a real chance of securing either oil or gas production at those locations.

We here do not feel that with the limited staff that we command that we could do that job or can do that job.

As to the broader philosophical phases we do not think that Government ought to do that job, that it can best be done by the individual in his search for oil.

Now it is important in this consideration and in this discussion. We start with this general national average. There may be a departure from this to a limited extent by counties where there is concentration of drilling to great depths in that county and elsewhere moving out as the individual can show his need. It is like this line that we discussed a little bit this morning. If you find yourself in the position of having to temper each well and each depth for 45,000 last year,

50,000 before the end of this year and next year 50,000 or 55,000, obviously we are going to be second-guessing every well in the country.

The corollary of that equitable principle, if we are going to second-guess is with respect to Mr. Lawton as against Mr. Hasty, assuming both are operators, that we then have to see that Mr. Lawton uses his steel only for that well and at that location, as a legal principle. The day that I do that by Federal Order, I remove every vestige and element of flexibility in the industry and independent thinking and independent opportunity in moving these pieces and parcels of steel around to get what the operator on the location deems to be the best result.

So that this problem is a problem of basic philosophy and approach, more than merely just a selection of competent lines.

I want to bring that out because the logical extension of this principle, carried out, if you are not very, very careful, puts the Federal Government in the position of second-guessing every operator as to every well in the country, with a mandatory command that if he uses the steel, he must use it there and only there.

Dr. BOATRIGHT. You are not using that principle in these chosen counties, are you?

Mr. BATZELL. No, sir, we are not using that principle in those chosen counties, but are trying to select out areas where we can recognize the need without concentrating it down to the point of having to run the operator's business. And in those areas where the operator has felt and can show that there is need for the same type of treatment he has been given that treatment.

Dr. BOATRIGHT. Do you think that it is right to adopt a factor for certain selected areas where adjacent areas across the section line have exactly the same problems?

Mr. BATZELL. First, the question of whether they are drilling across the section line should be determined. That would be important. Secondly, was the man across the section line not given the same factor? That would be important.

Dr. BOATRIGHT. The way your formula is applied now, it is only applied to those particular counties.

Mr. BATZELL. It applies to the counties, but you must state whether or not that individual drilling next door did not also get it.

Dr. BOATRIGHT. I know of some cases where they did not get it.

Mr. BATZELL. Then I think in those cases we should very seriously reconsider the cases as such.

Do you know whether the man reapplied in supplemental, pointing that out?

Dr. BOATRIGHT. I am very sure he did not.

Mr. BATZELL. Then the operator in that case apparently was satisfied with his ability and did not avail himself of his recourse to come back on a supplemental.

Dr. BOATRIGHT. He was either satisfied or ignorant of his privileges.

Mr. BATZELL. That may be, but it was explained to him in the letter, in the order and the press releases. I agree with you that it is a very basic problem and this you can help us on considerably: how will we reach these 5,000 operators?

Now remember, it isn't 5,000 of the same operators each quarter. Among the vast number of these small ones it differs from quarter to

quarter. It is only 5,000 operators in number. It is now up to around 6,000 to 7,000 in total and will probably run up to 8,000 operators or 10,000 operators.

It is a major problem with which we are deeply concerned and I think it is something that a great deal of help can be received on. How can we reach these operators to explain to them these necessarily complicated rules and to try to make them understand what we have to do? We are trying to keep the rules to a minimum, but that is the real problem that I can agree with you on. We haven't solved it satisfactorily in spite of all the press releases.

Dr. BOATRIGHT. Can you not solve it to a great extent if you include within your special factor or within the areas granted special factors, all of the adjacent area which has the same fundamental problem?

Mr. FRAME. Mr. Boatright, let me answer that question the same as I answer the question on the "A" factor. We do not profess to state that the standards as we have them now established are perfect, at all. They have been changed and they will be changed in the future. I can assure you that we will take a look at the possibility of correcting this county situation, to try to be as equitable as it is humanly possible to be under the circumstances.

Dr. BOATRIGHT. That is the answer I wanted.

I believe Mr. Sellers is the man to answer this question: Is it not true, that as it has been used in the past, the California factor as applied penalizes the small operator?

Mr. SELLER. Since that subject came up this morning, I went over this afternoon and checked to see what was happening. I did not have time to check every application from California operators. I had previously checked all of the B Group in California calculations and knew what was happening there. I think you too have checked all of those and are satisfied with those.

I checked twelve applications in the 12 to 40 group which we have said are figured exactly the same way as the B group. I found that out of those 12, 8 of them were figured exactly the same way.

On the other four, an error was made because the analyst who processed the application, misunderstood the instruction concerning that calculation.

Of those four, one of them had a sufficiently large inventory that he would not have received an allocation under either circumstance, so he has not yet been penalized. The other three were penalized and will be corrected.

In the zero through 11 group, I picked at random 14 missions. None of those were penalized. They, for the most part were given tonnage based on their stated need per well, and in some cases, that was more than the "A" factor and in some cases it was less, but according to their own statement, it was enough to drill the wells.

Dr. BOATRIGHT. If I understand your answer, it is your intention to treat the members of the A Group, identically with those of the B Group, if it is not being done?

Mr. SELLERS. That is right, and I think with the exception of errors that came in, it has been done, so far.

Dr. BOATRIGHT. I would like to ask this general question.

Why would it not be feasible to divide the United States into a reasonable number of areas and to determine "A" factors upon the basis

of representative companies experiences, for certain depth intervals and eliminate all of these other factors—would that result in a better distribution scheme?

Mr. FOREE. Dr. Boatright, if we divided them into those various districts, at this time we do not have enough staff in PAD to handle it, I do not believe. I do not believe we would spread the steel as far as it is being spread at this time.

I believe that there needs to be some correction in a few counties, that is true, but that is minor compared with what you are proposing. The system is pretty well in the minds of most of the operators—not all of them, but a lot of them—and to attempt to change it might do more harm than it would do good.

Mr. BATZELL. That proposal presents the same type of problem that I have previously discussed. I think it is a proposal that we should look at carefully, but running across it and against it is exactly the problem I mentioned before and mentioned this morning, and that is the problem of drawing lines.

Wherever you draw a line, there is always an area adjacent thereto—I do not care how many lines or how fine you draw them, the more you draw them, the more areas immediately adjacent thereto, you have.

In each of those areas, you have this fringe, specialized or border case. Each time that you do that, you further have the problem, in order to do equity to the other person, of making sure that the operator, given a certain factor in any given enclosed area, must utilize the steel that he has, or whatever you give him, in that particular area, and that carries you directly back to the basic principle which we have tried to establish that the particular operator is a far better judge of where to locate his wells than are we in PAD and that if we have to get into narrow, closely-defined types of area approach, we then are going to run the operator's business in order to protect the operator next door.

I think that industry reactions to that basically would be bad. I know my personal reaction to it is very bad because I do not like to put any more controls on people in this country than absolutely have to be put to do the job that we have to do.

Remember, this may be a long-range defense program. It is not as definable as if there were a "hot war" where at least the presumption is that that it will end at some date and these controls will go off. We are here confronted with an indefinite future. I think that all of us are anxious not to impose any more controls than are necessary because each time that is done, it saps some of the vitality and vigor of the industry and puts it over into government hands.

Now some controls are necessary, but as I say, you start out with a principle of a common, over-all operation, you deviate from that only where the circumstance is such that you have to do that to do equity in the particular locality, or to the particular operator.

Mr. CHANDLER. Dr. Boatright, further on that, when we draw the line around the United States and try to establish a national area, within that area we picked areas that need special consideration.

Now, within those areas, we have already pointed out that there are specialized areas. You are proposing we subdivide our one line around the United States into 7 or 8 provinces and within a province of any size, there will be special consideration within that province.

Then, we come down to analyzing the specialties within every province and we will run into the complaint that adjacent areas to those special provinces need special attention and there is no end to it. We end up trying to judge 50,000 wells instead of 5,000 operators' applications.

Mr. BROWN. Mr. Chairman, I have tried to remain silent but if I may make one comment here, I think we should have started one place ahead of where we did.

I do not know whether it is evident to the committee—I want to be sure—that these standards about the allocating of oil-country tubular goods is really a discussion of yard sticks. How much of it goes to the relative equity of the distribution? But in all this discussion about counties and consideration of wells, I think some people may have the impression that for each allocation of oil-country tubular goods that each applicant is required to drill that particular well in that particular county.

It does not work that way. Each company gets an allocation of steel for a quarter. We have done the best to estimate what it needs to make the distribution possible.

Now he may drill all his wells any way. If it varies so much from his program, if he says he is going to drill a lot of 15 thousand foot wells and drills a lot of 3 thousand foot wells, we may change the next allocation, but they still have the freedom to do as they please.

When we talk about dividing the United States into small areas and setting the length of pipe for each of those areas, then those people are committed to drill in those areas. That is what Mr. Batzell has been talking about, but none of our people have quite said it.

The man is still free to use the pipe in any way he pleases after he gets it and drill in any state to any depth. Until the man promises the Government that he is going to drill only the well he wants to drill, there is not much point in dividing these all up into areas.

Mr. LAWTON. The oil men are very resourceful. We set these standards up to exactly stop what would happen under your program.

When we got our applications for the third quarter, most of the companies were going to use 7-inch, 26 pound casing. Their idea was that if they got that 7-inch, 26 pound, they could immediately make it into 15-and-a-half pound 5-inch and get a bonus of about 60 percent footage. We headed that one off for them.

Now under your program in these areas, we would have to—the program you suggest in these areas—we would have to analyze—for instance, the Texas Company drills one thousand wells a year. We would have to analyze one thousand wells, which would be roughly one hundred times the work that we have to do on the Texas application now. We take the Texas Company's total footage, assign a factor, and as Mr. Brown says, they can take that steel and bury it to the best of their ability.

We feel they know more about their business than we do. If they go out and bury that steel, they come back to get more.

When we go into the other program, we will have to quadruple and quintuple the staff and I do not believe we will get the same results we get now.

Dr. BOATRIGHT. I want the record to show clearly that that was not my program. I submitted it for discussion.

Is it not true that an operator who works over a wide area, and whose inventories were built up prior to the time that PAD was conceived, requires a larger inventory than an operator whose only operations are rather limited and whose operations were located in a small area?

Mr. SELLERS. No.

Dr. BOATRIGHT. Why?

Mr. SELLERS. If we have an operator who uses one thousand tons a quarter in Kansas, and a thousand tons a quarter in Oklahoma, and we have two other operators, one of whom uses one thousand tons in Kansas, and the other uses a thousand tons in Oklahoma, I see no reason why the operator who operates in the two states should receive a benefit over and above the two operators with whom he is competing.

The fact that the operator has a large inventory in a district in which he was not going to be active could limit the flexibility of his inventory and thereby cause him some inconvenience.

That, I believe, has already been taken care of by permitting operators to declare that pipe for which they have no immediate need as excess inventory, make it available for sale to someone else who does have a need for it in that area, and has an appropriate rating from PAD, thereby they reduce the inventory charged to them, they get more pipe and they can ship it to the place where they are going to use it.

Dr. BOATRIGHT. At the present time, conversion steel is charged into inventory, is that correct?

Mr. SELLERS. Yes, conversion steel is charged to inventory.

Dr. BOATRIGHT. At the present time, useable second-hand pipe or foreign pipe is not charged in inventory, is that correct?

Mr. SELLERS. That is correct.

Dr. BOATRIGHT. It is also correct that the barrel of oil does not know where the pipe it came through came from?

Mr. SELLERS. That is correct.

Dr. BOATRIGHT. Why should not foreign pipe and usable second-hand pipe be charged against inventory.

Mr. LAWTON. We had those problems come up.

Now let me simplify the drilling of a well.

To drill a well to 3,600 feet, which is the national pattern—with the national average pattern of five-and-a-half and other sizes, it takes 14.51 tons per thousand feet to complete a well at that depth.

Now we have assigned the operators, 11 tons under this program. Where does the other come from? Part of that, it was said this morning is the difference between the new domestic tubing production and the use of second-hand, foreign and conversion, plus your dry holes.

Dr. BOATRIGHT. And your inventory?

Mr. LAWTON. We cannot count that when we are figuring on digging wells. We set a 90-day inventory and that is all there was, theoretically. The only thing we can do in making the allocations, is to move from that base.

Now, moving forward from that, if we counted second-hand material in inventory, we would need ten thousand policemen and I will tell you why.

They will pull an old well to get the pipe today, and put it in another well tomorrow, and it never was in inventory. It would take innumer-

able employees to try to create equity by taking second-hand pipe into inventory and putting it out again. It just does not operate that way.

Now, for instance, another segment of that that we did not count in inventory for the simple reason that as it was explained this morning, if you counted an inventory, no normal thinking operator would pay high prices for steel that was going to be counted against him, if he could buy it for less later. That would eliminate that much pipe for drilling.

The same thing would happen in conversion, if you counted in inventory, to start with. I mean in our original program we did not count it, to start with—that was to encourage the companies to go ahead and straighten out their inventories and go ahead and drill the footage and use the facilities of the wells.

Enough steel was not allowed to fill the entire tubular goods producing space, by the NPA and the DPA. Therefore, this conversion had been made before and we felt it still should be used and it was, but we did not count it.

Dr. BOATRIGHT. They are now.

Mr. LAWTON. We understand they are.

Mr. BATZELL. DPA, as you probably know—and this raises a very interesting problem—the DPA has through CMP regulation 1, embraced in that conversion steel. Incidentally it also embraces used pipe and it embraces foreign pipe under certain circumstances.

It poses quite a problem from the inventory set-up, which I can discuss, but from the conversion: our allotments at the present time by DPA are specifically so much of what you may call normal tonnage plus, and in this instance there is 25 thousand tons, so much specifically earmarked as conversion tonnage. Therefore, both from the allocation side and the inventory side, since the limitation is on us to allot in terms of conversion tonnage, we have to count it in the inventory and the allotment.

Dr. BOATRIGHT. Is it not true, in so far as foreign pipe is concerned, that that source of steel is restricted primarily to large companies?

Mr. BATZELL. I do not think that can be said to be true. I only speak from my personal experience. Ordinarily I am a practising attorney. Most of my clients are independents. I do represent some big companies.

I was once engaged in buying foreign pipe for my independent friends, who in 1949 and 1950 were pretty hard pressed, not having quite the connections with the mills that some of their competitors had. I do not think the record will show that in fact it is by any means the large companies that are purchasing exclusively foreign pipe. I think rather with this pinch on, in terms of the independent, that prior to this allocation scheme, the small fellow virtually was forced to pay for and obtain the foreign pipe and the more expensive used pipe simply because he did not have access to the mill sources which were producing the cheaper domestic pipe.

Mr. FOREE. I have had some connection with a company in Dallas who have probably handled more foreign pipe then any other group and I believe there has been about a 50–50 split between the independents and the majors.

As of recent date, I believe that the independents have been buying most of the foreign pipe that has come into the country.

Only last week, Fred Heyne of Houston, who is an independent operator there, called and asked us about his buying some foreign pipe and he told us at that time he was spending $330 a ton for it and quite a number of independents were in there buying a portion of it.

Mr. MORRISON. This distribution of foreign and conversion pipe has been probably one of the most troublesome to equitably distribute. For instance, prior to the Controlled Materials Plan I do not believe there is any question but what the small, independent operator was paying premiums, whether he bought conversion or whether he bought imported pipe or whatever he bought. I do not like to call it black market but he was obtaining a large portion of his pipe at premium prices for the reason that the large purchasers, the major operators with a historic background of tonnage, had an established base period and they were permitted by all the mills to obtain a percentage of the tonnages that they bought back in 1946, 1947, 1948 and so forth.

Prior to the fourth quarter, conversion tonnage was free so anyone could buy who wanted to. In the meantime through the formation of these emergency field stocks, the little fellow had been able to procure most of his pipe and the switch came and the majors started buying the conversion pipe.

There was another factor in there. The mill tonnage in the production of pipe is based on a tonnage formula, as is all steel, so that the smaller quantities—and when Mr. Lawton and PAD production started allocating tonnage, all the operators immediately switched to five and a half. As soon as they switched to five and a half, that changed the mill production pattern, which formerly had been about 27 and a half percent, five and a half and the balance in other sizes, on up to the 13 and three-eighths. Then at the beginning of the fourth quarter, when PAD was put into the conversion market by having to provide tickets, then came the problem as to how we could distribute it.

Speaking specifically of the first quarter and bearing in mind that when we try to determine how much oil-country tubular goods is going to be available in any one quarter, we sit down with NPA and with the Steel Advisory Committees months ahead. The estimate for first quarter was 465,000 tons.

Then there is an additional 30,000 tons of conversions which PAD have in the picture because they then had to provide the tickets. So the question: Should the Production Division take the 465,000 tons normally produced and therefore normally priced oil-country tubular goods and allocate that and then hold out the 30,000 tons of conversion and give out supplemental allocations later?

That would not work because in the first place it takes a longer time to get the conversion and then conversion just cannot be made by fellows who have an allocation for 50, 75, 150, or 200 tons of pipe.

Then we can say, "All right, if that will not work, then we will take the 495,000 tons, which is the total regular production, plus the conversion pipe, and call that our bank account and distribute that."

We immediately say, "No, you cannot do that because the large purchaser through his steel connections and through his historical background—not because he necessarily deals with the mills direct but because he is a large purchaser of oil-well equipment and rigs and so forth, he has a preferential position," so the same thing would happen

that happened before the fourth quarter. The little fellow would have a ticket he could not cash, he would try to buy conversion and he could not because by the time he found he could not cash it at a regular mill or from a regular supply house, it would be too late to cash it in that quarter and besides he did not buy enough of a size for a conversion deal.

I have said all along that to have a man purchase conversion steel you must give him some incentive. You could not give him an incentive and distribute it straight across the board. Now they have come up in the second quarter with a plan that will encourage the purchase of conversion steel.

When you say that the large operator bought conversion steel, I believe the biggest importer of conversion steel was people like Lucey Products in Houston.

Now we are attempting a plan that we think is going to work: Recognizing that the little fellow cannot put together a conversion deal, we are encouraging certain concerns or individuals—anyone who is capable of doing it—to put together a conversion deal and put it in stock so that the little fellow can then cash his tickets for his 25, 35, 50, 85 tons. That would give everyone the incentive and we would be able to use the conversion steel although not at the normal price.

Mr. CHANDLER. There is one other consideration there.

We only allow new oil-country tubular goods whereas the operator traditionally uses additional sources to supplement his drilling program. Therefore, along that line of thinking, we would have to make one computation to calculate an operator's 90-day inventory based on a total requirement of not only oil-country tubular goods domestically produced but also foreign, also conversion, also his used goods, also his line pipe which is partly used in down-the-hole use, and we would have to make the additional computation then for his allotment of domestically produced new oil-country tubular goods based on another factor. So in addition to the additional computations there, which would be almost double for every operator, we would be confronted with the idea of can we actually analyze an operator's position from an inventory standpoint if we have to take all of these traditional sources into account. As has been pointed out, the used goods would probably stay in the ground until he had a use for it. He would pull it and bury it and it would never show in inventory. So then those people who possibly had access to abandoned wells, then they would receive more consideration. From the standpoint of line pipe it would be almost impossible to segregate an operator's line pipe in inventory between the uses that he has for line pipe, as far as a transportation line is concerned or a water line or a flow line, or what he actually intended to employ in down-the-hole use.

Those ramifications which would be involved in ascertaining what an operator's true inventory position would be with relation to all these supplemental sources, to the new domestic oil country tubular goods, we feel like our method is the fairest way and that every operator then certainly has his own responsibility to supplement his new oil country tubular goods from these outside sources.

Mr. FRAME. I am sure we have thoroughly confused the committee on this question of conversion pipe.

Mr. BURTON. I think you are correct in that. It was going to ask about the used pipe, and ask what portion of that is recoverable from

these wells. I inferred from your statement that the cost of the used pipe would be greater than your new pipe, because it is unreliable. Is that correct?

Mr. FOREE. That was true before OPS established the ceiling price. OPS has a ceiling price on used casing which is 80 percent of the new mill price. While a lot of the second-hand pipe has been handled by second-hand pipe dealers—they would buy wells, plug them, pull the pipe into their yards, and sell it out of their yard, and they have been selling it up until the time of the ceiling, at about double the new price for pipe. Now, however, that market has dried up. Most of the second-hand dealers have locked their doors, or are selling their pipe at ceiling price and possibly trading it for interest in the lease. The other second-hand pipe is that which an operator himself pulls and uses in his own wells.

Mr. BURTON. Can he afford to pull that or would that cost him more than it would normally cost for new pipe?

Mr. FOREE. He can pull five and a half inch pipe for 30 cents a foot. It is his own pipe and he pulls it and moves it to a new well. He tests it. However, it is as good in most cases as the new pipe, where he can recover it at a nominal cost.

Mr. BURTON. That nominal cost is very much less than the cost of new pipe?

Mr. FOREE. Yes, sir.

Mr. LAWTON. Mr. Chairman, I could answer the other part of your question. About 50 percent is recoverable.

Mr. BURTON. Thank you.

Dr. Boatright——

Dr. BOATRIGHT. Is an MRO allowance made for the people who cooperate?

Mr. SELLERS. Yes.

Dr. BOATRIGHT. How is it determined?

Mr. SELLERS. One percent of the quarterly need. He has to do two things. He has to file a supplemental application and he has to indicate a need for MRO material.

Dr. BOATRIGHT. The one per cent figure has no relationship to actual use of MRO.

Mr. BATZELL. Let me clarify one point: You are now just talking about oil-country tubular goods and not the other steel or equipment that goes into maintenance and repair of rigs, derricks and the like. You are talking only about oil country tubular goods.

Dr. BOATRIGHT. Yes.

Mr. BATZELL. The rest of the equipment is handled on an entirely different basis.

Dr. BOATRIGHT. I understand.

Mr. LAWTON. We made a survey and picked out one per cent as the necessary amount for MRO and put it at that top to stop pirating in tubular goods.

Dr. BOATRIGHT. That MRO steel is not charged against their allotment?

Mr. LAWTON. No, sir, that is in addition to their normal allotment. A man who operates five wells has that all taken into consideration, his production operation and his drilling operation, his drilling deeper and things of that kind.

Dr. BOATRIGHT. You are confusing the "A" operator and the "B". I am talking about the B operator only.

Mr. LAWTON. The B operator gets one per cent or will receive it if he applies for it.

Dr. BOATRIGHT. He gets that free with no charge?

Mr. LAWTON. That is right. That is over and above his allocation.

Dr. BOATRIGHT. He can get it if he asks for it and it is not charged against him.

I would like to ask a general question and preface it with the remark that it seems to be particularly the small operators who are handicapped in connection with PAD activities. I want to ask this question: Has PDA given consideration to the possibility or feasibility of establishing district offices, said offices to have men who understand the operations of the PDA formula, with reference particularly to the small operators?

Mr. FRAME. Mr. Boatright, perhaps I can answer that. This perhaps may be a little unfair answer. Congress at the time of our last request for budget quite thoroughly took care of that situation by reducing our request for funds to the point where we have no funds to open up the district offices that we had suggested opening. In fact we had to close one office that we already had open because we had insufficient funds.

Mr. FOREE. In that connection might I introduce into the record the February 20, 1952, issue of the Oil Daily, in which there is an article unsigned and unnamed—however, it comes out of Houston—and it is a complaint of a major oil company, in that he not only contends that the independents are getting too much of the pipe, he contends that PAD is primarily staffed by independents.

Mr. FRAME. That bring us all the way around the circle, I might point out.

(The article referred to follows:)

How the mathematical formula used by the Petroleum Administration for Defense to allocate oil-country tubular goods can penalize an operator who changes his drilling rate is being illustrated these days by one of Texas' major oil companies.

The company laid the groundwork for its present difficulties when it slackened drilling in the later part of 1951 as it completed an important development program. When it recently sought to resume operations at a normal pace, it was able to get priorities for only about 12 percent of its estimated pipe needs.

"The formula allots a percentage of the pipe used by each operator in a base period consisting of the present quarter and the last four previous quarters," a company spokesman told the Oil Daily. "Our base period now contains several months in which we were using very little pipe."

As a result, the company has been forced to undertake a frantic, world-wide search for enough oil-country tubular to keep going.

"We have bought lots of foreign pipe, bringing it in from France, Italy, and Japan, sometimes at more than double domestic prices," the spokesman said. "We have made swaps with a number of independents who let us have pipe from their stockpiles on our agreement to replace it with pipe now on order, and we have dealt for as much sub-standard and conversion pipe as we could lay hands on. Despite this, we have reduced our operating rigs in one area from 43 to 35."

An example of the company's urgent need for pipe, he said, is its disposition of more than 400 metric tons brought in by a French ship that docked on the Gulf Coast February 4.

"We expect to have all that pipe in the ground by this week," he reported.

The spokesman, who must remain unnamed, said he was not as much concerned about the PAD formula as about evidence that some independents apparently have more pipe than they need.

Noting that independents last year were complaining about alleged partiality by some pipe mills in filling major company orders, the spokesman said part of the current dearth of pipe may be due to maldistribution "in the opposite direction.

"The independents seem to have been treated a little better in regard to pipe since the third and fourth quarters of last year and now appear to be faring better than the majors," he asserted. "I'm not drawing any conclusions, but I would like to point to the fact that the PAD is composed largely of independents. Whether this is a significant fact every operator can judge for himself."

Dr. BOATRIGHT. What, if anything, is being done to alleviate the difficulties of the very small operator in cashing his PAD tickets for steel?

Mr. MORRISON. The Materials Division is organized now practically for that purpose. Under our organization now our duties are to accommodate the requirements of the operating division for material, to obtain the maximum amount necessary through our presentation of these requirements to DPA in that manner, and to work very closely with NPA in the Iron and Steel Division, and any people who have tickets, whether for oil-country tubular goods or structural steel or plates or whatever it is, are asked to present their problem to the Materials Division and we attempt to tell them where they can cash their tickets.

One of the greatest difficulties of the smaller operator that you mentioned in wishing to cash his ticket is based on this mill pattern of which I speak, the mill pattern of five and a half inch being 27 percent. The little fellow is able to, or does in some way or another, use second-hand pipe, he uses line pipe, he uses anything round with a hole in it to take care of his surface string. So when he strikes oil and has to have his oil string, he wants then practically 100 percent of his allocation in the five and a half and it is quite difficult to do, but that is why we are attempting to establish field stocks of the conversion pipe, which is all five and a half and seven inch and, while there is a premium attached to it, it does enable him to disregard completely the mill production pattern of sizes of casing. So if we have an operator who cannot cash his tickets, he applies to the Materials Division and we, by contacting the supply houses, the emergency stocks, the field stocks, the conversion stocks that we know of, attempt to enable him to get that pipe.

Mr. FOREE. May I add to that, Doctor, that in the last month four people have moved out of the Materials Department and over into the Production Department. That has given us a little more work to do. In the trade it came out this way, that in the numerous calls we have from the small operator to place his order to get it out of M–6 stocks, the Materials Division have that responsibility. We are happy. We think they can do it better than we.

Mr. BATZELL. Traditionally, to the extent the small operator purchased oil-country tubular goods, he purchased them to a large extent through supply houses.

Now following the war, much of the pattern of oil country tubular goods distribution was changed so that the stocks in supply houses were gradually drained down. One important step that we took in cooperation with NPA, which actually has under their jurisdiction these supply houses, was the revival of stocks at the local distribution level. That was quite a problem and presented many technical difficulties as far as the priorities aspects were concerned. I will not go into

that but I will say we were finally successful in getting a certain amount of basic distribution channeled into supply houses scattered throughout the country which are in addition to emergency stocks, and which may be drawn upon by the smaller operators under special allotment symbols granted by PAD.

Dr. BOATRIGHT. Why is it not feasible to make available to the public upon request the figures necessary for one operator to calculate not only his own allotment but that of some competitor?

Mr. BATZELL. That, sir, raises a very interesting point. The point is basically this: Some of the information which we have to ask the operators to give us, because we have to know that to do a fair and equitable measurement job of one operator against another, is basically in the nature of personal business.

Under the Defense Production Act, it is specifically recognized that that type of information should be classified as confidential. Not confidential in the security sense but confidential because it is unwarranted disclosure to competitors that might injuriously affect the person who had given that information to the Government.

We have therefore found that certain classes of information contributed to us in order that we may perform our calculations are in the nature of trade secrets belonging to the individual who gave us that information. That has been treated as confidential under the Defense Production Act, in this particular part of it that I referred to previously.

We cannot release that information. As a matter of fact, the Defense Production Act says we cannot release it without the consent of the individual operator from whom it is obtained.

When we made records available to this committee in answer to your request, we requested every person as to whom we were going to make those records available to waive that statutory requirement and that classification of confidential.

We have several times indicated that where an operator felt free to give permission to release it, we would do so. But we do not feel it proper to take from the operator certain things which may represent money to him, or relationships with his bank or other matters which he prefers to keep confidential. We do not feel free to release them under the statute without permission.

Mr. BURTON. I would approve of that position. I think that is the one you should take.

May I ask, for clarification in my own mind, that in addition to CMP tubular goods, do I understand that you have the foreign, the conversion, and the used pipe that is in free market?

Mr. BATZELL. Yes.

Mr. BURTON. That is taken into consideration in your inventory controls?

Mr. BATZELL. The conversion pipe is now taken into consideration. The foreign and the used is not.

Mr. BURTON. In your opinion, that is in the interests of defense production?

Mr. BATZELL. Very definitely, yes, because it continues that incentive to purchase to the extent you can, the higher-priced pipe and bring it in to supplement the allotments that are made available.

As Mr. Lawton has pointed out, the new pipe is 11 tons per thousand. The total average amount of pipe needed is 14 tons per thousand, and that difference is made up by these additional sources.

We are confronted with the problem now, that because of the price ceiling, as Mr. Foree has brought out, because of the price ceiling on used pipe, that sort of supply to operators who are not drawing it out of their own wells, has virtually dried up. Hence it puts a greater burden and a greater necessity on us, if we are going to drill even the same number of wells, to have a higher percentage of new pipe in the coming year.

Mr. BURTON. Would it be your observation that there should be some relief there or is this proper procedure to hold that where it is?

Mr. FOREE. May I say, Mr. Chairman, that the OPS is considering raising the ceiling price on second-hand tubular goods, at this time. Supposedly that order is to come out this week, raising it from 80 percent of the new price to 95 percent of the new price which I believe will help it some.

May I answer another thing about conversion. Conversion now or was in the second quarter, allocated or offered to the whole industry. Each one who would apply for priority assistance in the second quarter of this year was given an opportunity to ask for the conversion he thought he might use. It was then allotted on the same standards that the mill goods are allotted.

Mr. BURTON. And in addition to the normal allotment.

Mr. FOREE. Yes, sir, and to the whole industry.

Dr. BOATRIGHT. There is not sufficient public information for anyone to calculate their allotment, isn't that correct?

Mr. BATZELL. I do not know that that statement is entirely correct. There are those adjustments which have been discussed several times here, which were taken into account.

Obviously as has been pointed out before it cannot be completely a mechanical operation. In order to grant relief where relief is practically necessary, there has to be discretionary activity taken in and that discretionary activity undoubtedly is reflected in part as we go through this operation. But I would think in general that the application strictly of the standards to this would come out in the proper order of magnitude, even though the exact quantities might be different because of these additional adjustment elements.

There is one point that both Mr. Brown and Mr. Frame pointed out, that you have to measure all of this in terms of the total availabilities which we have during any given quarter, because the standard states that there must be proportionate equitable adjustment after the computations have been made, which of course, is measured back against the size of the pie that we have to divvy up.

Dr. BOATRIGHT. That is exactly the point I was driving at.

Mr. BURTON. May I inquire whether the situation is improving, or the shortage becoming more acute?

Mr. MORRISON. The situation is improving. In fact to be specific, in the third quarter, we expect to have 450,000 tons of oil-country tubular goods alloted by DPA. In the fourth quarter it was 475,000 tons. In the first quarter it was 496,000 tons. In the second quarter it was 519,000. We are asking for an additional 100,000 tons, which we hope to get, and there is a lot of discussion going on now between

NPA and ourselves and we are hoping DPA will instruct NPA to channel sufficient steel into the finishing mills to enable us to obtain an additional 100,000 tons. Frankly I do not think we will get that in the third quarter, but before the end of the year we will be getting that much and there are additional facilities coming in to several mills and by the end of 1953 we will probably be in the area of regular production of oil-country tubular goods in the neighborhood of 605,000 tons.

Mr. BURTON. Do you mean by that date the supply should be ample, given present conditions?

Mr. FRAME. I would like to rise at that point on the question of "ample." "Ample" is a relative term.

Mr. BURTON. Use your own term.

Mr. FRAME. It would look to us as though, if we are to get what in our opinion is the necessary reserve productive capacity for crude oil production in this country, that we will strain the productive capacity of this country as far as the ability to manufacture oil country tubular goods is concerned, at least in my opinion, through 1953. There will be more oil-country tubular goods we believe than have been available in the recent past. We still do not believe that there will be enough oil-country tubular goods to permit us to drill the number of wells that from a national security standpoint we would like to see drilled over the next 18 months.

Mr. BURTON. It was indicated there would be some measure of relief in the third quarter. To what extent are you expecting that?

Mr. FRAME. We have asked for an additional 100,000 tons increase in oil-country tubular goods in the third quarter over what we have gotten in the first quarter. We have had no allocations yet come out of the DPA in regard to that. We want increasing quantities of oil country tubular goods for the fourth quarter and for all quarters of next year.

I would like to point this out, that I do not want to leave the impression that it is lack of willingness on anybody's part to make the oil-country tubular goods available to the petroleum industry. It is largely a question of mill capacity and the dire need for steel, of course, in all other aspects of the defense economy as well as the general civilian requirements.

There are new mills scheduled to come into operation. Two mills I believe come into operation during the balance of this year. There are two more due to come in next year. When those mills come into operation, the availability of oil-country tubular goods will be increased. We will need it to get the reserve production capacity of crude oil.

Mr. BURTON. Do you feel that that will give reasonable relief for third quarter?

Mr. FRAME. If we get what we ask for or close to it, it will, yes, sir.

Mr. BURTON. I am assuming that is a calculated speculation.

Mr. FRAME. Yes, sir. It is calculated from our standpoint.

Mr. BURTON. I would infer that you have some reason to support that belief.

Mr. FRAME. We are making strenuous efforts to support that belief before DPA and NPA.

Mr. BURTON. That we will try to develop.

Mr. RILEY. I would merely like to ask Mr. Frame if at some time he might be able to insert in the record a small amount of information that we lack. Namely, the breakdown of quantities requested in the past quarters by PAD. We have a breakdown of the allocations that have been made.

Mr. FRAME. We would be very glad to give the information in regard to the amounts requested and the amounts allocated.

Mr. RILEY. We have the amounts allocated.

Mr. BURTON. Gentlemen, we have with us this evening, Mr. E. I. Thompson, Executive Vice President, The Independent Producers and Royalty Owners Association.

We would like to hear from Mr. Thompson and we are scheduling him for tomorrow morning.

However, if you gentlemen who have been so kind to come out this evening would like to hear his testimony, we will be glad to hear from him now, and probably make it unnecessary for you to come in the morning.

We leave that to your choice, if Mr. Thompson does not mind.

Mr. FRAME. I assure you if we could finish this evening we would appreciate it. We have many other chores awaiting us.

Mr. BURTON. You have been very generous with your time and if we can handle this to suit your convenience we would like to.

I would like to turn the meeting over to Mr. Riehlman.

Mr. RIEHLMAN. I think what I have to say will be more a statement rather than a question. It has been interesting to hear the discussion in respect to your formula and the manner in which this oil-country tubular goods has been allocated. I am certainly not familiar with it and I have no proficiency in it in any manner. After hearing all of this discussion I am not too sure that I understand it. However, the thing that I am definitely interested in is what the reaction of the industry has been in respect to your program.

Mr. FRAME. That is a broad question.

Mr. RIEHLMAN. I know it is a broad question but I want to know whether you have had a tremendous amount of complaints and whether there have been many inequities you have found in this program you have set up.

Mr. FRAME. I would answer that categorically that in general we have found that the industry, both the large and small segments have accepted the program. Has accepted graciously and willingly the restraints that always come with any form of controls. You cannot have any Governmental control with a rigid formula base without at some time creating inequities. Those inequities sometimes have been pointed out to us rather forcefully.

In every case we have reviewed those cases and have either corrected the inequities if it is in our power to do so or have I believe in the majority of cases at least convinced the complainer that we had done everything within our power to treat everybody equitably. So the general reply to your question, sir, is that we feel that the industry, both the large and small segments, is reasonably well satisfied with the formula and the method of application.

Mr. FOREE. On September 5, last year, I was over on the other side of the table from PAD. We asked for a meeting with PAD so we might understand more about the distribution. We were somewhat

agitated because a lot of it we did not understand. Particularly starting out with the forms. So an oil man and particularly an independent oil man, the filling out of a form is something like catching a rattle snake. A meeting was held here with the staff of PAD. There were representatives of various associations all over the country, some 16 associations being represented. Time passed on and I got over on the other side of the fence and we held a second meeting on January 10, of this year.

The first meeting, if I am correct, lasted three days. This last meeting lasted a short day.

I believe that the consensus of that meeting was that most all of those associations there represented—and they represented all of the associations—the active oil associations in the country—that generally they approved of the program.

Mr. RIEHLMAN. Did they represent the majority of the small operators?

Mr. FOREE. There were representatives there from API on down, and the majority of the associations was representative of small producers; yes, sir.

Mr. RIEHLMAN. That is the thing I think our committee is particularly interested in, what is happening to the small producer, and that his allocations are properly made and that his activities are not curtailed any farther than it is absolutely necessary.

Mr. FOREE. I am particularly interested in that too and probably that article in the Oil Daily referred principally to me.

Mr. RIEHLMAN. In closing I would just like to say this, that we realize, Mr. Chairman, that if the program is not properly carried out, where the responsibility lies. That has been properly stated tonight, that it comes back to the Congress because of insufficient funds.

We appreciate that statement. That is usually given to us toward the conclusion of the hearing. It is nothing new to us. I want you to understand that. We accept our responsibility and we hope you will accept yours as graciously.

Mr. BROWN. We are working with one-fourth as many people as we had during World War II and with one district office and that we use for special purposes. We really have been shorthanded.

Mr. RIEHLMAN. I am not arguing your point a bit. We are all working shorthanded today and we have a tremendous problem.

That is all.

Mr. BURTON. Thank you very much, Mr. Riehlman. Of course, as you say, we realize it all comes back to the Congress, but reviewing our recent budgets and those projected, I would not say we have been ungenerous, and I am among those who hope that we may reduce the budget considerably although I appreciate we could not do it with your Department.

I thank you very much for your cordial cooperation, for your directness and the very frank way you have answered the questions and I trust that out of this good may come to the industry, to your Department and to all.

We are here, as Mr. Riehlman has so ably stated, to protect the interests of small business and see that they are fairly treated and we ask nothing more. I am sure you gentlemen not only subscribe to that but are endeavoring to see that that is the administration we get.

I thank you so much.

Mr. Thompson, we will be very glad to hear from you now. It probably is not quite fair to you to call you up on short notice, but these gentlemen have been testifying this morning and this evening and I judge they would like to have something of the other angle while they are here, and we can so dispense with calling them tomorrow morning.

STATEMENT OF E. I. THOMPSON, EXECUTIVE VICE PRESIDENT, TEXAS INDEPENDENT PRODUCERS AND ROYALTY OWNERS ASSOCIATION

Mr. BURTON. Mr. Thompson, I believe you are representing the small independents and we would like to have your angle on the situation.

Mr. THOMPSON. I represent both small and large independent producers.

In the first place, I was much impressed with your opening statement. It is what I expected from an investigation. I am afraid that a lot of the boys up here in PAD, for instance, have been reading in the papers about investigations and shunned an investigation. I have felt all along that an investigation, something bringing out all the facts, would be good for all parties concerned and particularly for the PAD and the industry.

Going back, when PAD was set up, I was up here a few times at the time we were trying to get it as an autonomous body. We had some difficulties. No one expected any group of men to come in and be able to come out flat with a formula that was going to work from them on out. No one expected that, at all. It was obvious that it had to be a trial and error proposition. Also there was a prevailing feeling at the time which was promoted by the steel companies that the steel situation was going to ease up and that the pipe situation was going to ease up in the fall. In fact, they told us that pipe would be running out our ears by fall so it would be perfectly obvious that the men who were in here to set up a program of allocation might be influenced by that and would feel that too many hard and fast rules were not necessary at the time.

Now the measure of whether a program is good or bad is not by the number of squawks. For instance, if three or four operators are not getting the amount of pipe they are entitled to under certain conditions by virtue of a system, then the system should be looked into. It doesn't take 15 or 20. It is true that most of the boys are getting along fairly well. They don't like controls. Once they are in, if they are getting along pretty well, they say it is all right.

I have worked with all these boys up here. I know them all. They have done a very good job with the tools they had.

We complained last fall because I had a lot of squawks. I, as Executive Vice-President of the Association got a lot of squawks from the boys to the effect that "I have been in the oil business for a long time and it so happened that I didn't have a history because I was a partner of so and so," and this individual, it was perfectly true, in his own right, had an income from production of maybe 500 or 600 or 700 or maybe 1,200 barrels a day, but he didn't have a history and he complained because the program was set up on a basis of history.

Consequently it looked like you should have looked into the history of the situation.

Now I came down. I worked over in Colonial Village with the boys here, with Bob and the rest of them. An individual case would come up and there would be a ruling. "Now wait a minute. That fellow is entitled to something." It was a matter of shooting from the hip. We sort of felt that that shouldn't be necessary. Of course it places a hardship on PAD that they should have to shoot from the hip. Couldn't we possibly get some rules that maybe could just be applied, and not have to have patchwork rulings.

There is no question in my mind but that so far as the little fellow is concerned, he has gotten particular attention.

Now we did ask for information.

Mr. BURTON. Would you mind repeating that again?

Mr. THOMPSON. There is no question in my mind but what the little fellow is getting particular specific attention from PAD. I am talking about the little man who the nothing to eight operators, and so on.

We asked for information on how the thing was working. After Mr. Foree came down as the head of production, we had this meeting of the associations and they gave us the figures on the allocations for the third and fourth quarters.

The B operators all but a few who wouldn't reveal their data were all there, and then the A operators as a group.

We felt that you just couldn't look at that in one day and assess how the thing was working out. We didn't say we didn't think it would work right, but we wanted to know whether or not it was working right. We couldn't get the information.

Now when the House Small Business Committee saw fit to ask for the information and possibly conduct an investigation, we felt that that was constructive. I am perfectly frank in saying I knew that Mr. Foree was new down here and he read about investigations and he didn't like the idea of investigations.

I said, "Well, Bob, there is nobody investigating your integrity or anything else, but if as a result of it, if the committee comes up with something that will improve the whole situation, we are all better off."

I believe that Dr. Boatright, for instance—during the morning, there were two or three items and Mr. Frame was quick to say, "Yes, we will take that into consideration," and so forth.

Well, now, possibly a few of these things wouldn't have come out except as a result of this.

Now you predicated your remarks this morning, Mr. Chairman, by saying that this was an investigation to find the facts and see if there was any way to improve the situation.

Mr. BURTON. I believe we termed it a "friendly hearing" rather than an investigation.

Mr. THOMPSON. That is the idea. It is not an investigation, it is a hearing.

Among other things, this is personally true, Mr. Chairman. I came down here in November and I have been down recently on individual cases. Little fellows who couldn't afford to spend the money to come to Washington to check up on their items. Now I found Bob Sellers with a bunch of files two feet deep over there. He was getting

to them as fast as he could. They are understaffed, there is no question, and the industry and the country is suffering as a result of it, but he was getting to them as fast as he could.

Now I am not being facetious about this, Mr. Riehlman, but he referred me to another boy who had another stack. Well, we dug the things out and sure enough, this small operator was entitled to some consideration and he got it. However, they wouldn't have gotten to his file in time to do anything about it if I had not come up or if someone had not come up to do something about it.

The district setup that we had under PAW is not feasible. Under the present plan, it would not be feasible to set up district offices, but it would be feasible to set up an office for a few representatives so a man in Texas could come to Houston and explain his case, which the man there would thoroughly understand and could talk to Washington and get it straightened out.

Now I think that some of Dr. Boatright's suggestions are very sound and I think they are happily received by the PAD. Yet it is a question of whether this would have come about except for the hearing. Consequently, I think the hearing has been very sound and very good and I think there is no question but what so far as the committee is concerned, and PAD is concerned, we both have the same objective and that is if it is possible to improve the situation, we should do it.

However, I want to add one other thought. I mean I can talk objectively because the boys all come and talk to me. This is a branch of thinking that is occurring among some of the independent operators. They say, "Is PAD set up to allocate steel to oil?" Well, I guess that is true. Well, that being the case, if John Smith has a lease out here that will produce oil, whether he had a history or whether he did not have a history, he should be able to get pipe because he can drill a well and it would produce oil.

Now this is no criticism of PAD and its system, at all, but it is a question I believe the committee could well think about as the fundamental principle involved, if we are allocating to oil.

I have an absolute case. We will call him John Doe. Mr. Foree is familiar with it and so are the others. He has been an operator for years, but he hasn't operated in his own name. There has always been a partner who supplied the pipe, so we have no history.

On the night of January 14 we got a call from a geologist that a certain deal was open to him out in Chambers County in Texas and he thought it would produce. It was a pretty tough landowner. It is one of the salt domes that go off very sharply. He took the deal that night.

Now he had not anticipated the time element that they must necessarily have in allocating in PAD.

On January 31, by that time, you must have put in a PAD–17 indicating that you had a program for the second quarter and you wanted an allocation of pipe.

Now you have to have that in order to get some consideration. They have even been suggesting that if you sent it in almost in blank and had your name on it, at least your foot was in the door and if there was an emergency you could have some consideration.

This lad had no idea about it. Anyhow, he took this deal and started drilling the next day and by February 15 he had a well. He was drilling on a hundred square feet of land and he had a thirty-seven acre lease adjoining it upon which he had to start a well if he got a well on this 100 square feet. He had to start another well within thirty days from that time. He got the well. He had no history. The time element was running against him. He had no obligation there.

I came up and talked to Mr. Foree and Bob Sellers and the rest of them and frankly there was nothing under the rules they could do about it. Had he had an application in or had he even guessed that he was going to drill a well and put in that application on the 31st of January he would have had his foot in the door and they could have given him some kind of an order that would have enabled him to get some pipe.

Now that is no criticism of what PAD is doing. There is a time element involved in there that they had to set up some kind of a time element. It is an emergency situation but the point I am making is the group that are talking about this say that in a situation like that, is that allocating steel to oil?

Mr. BURTON. For the small user without a history I understood you had an emergency policy that would take care of that.

Mr. THOMPSON. The wildcat situation has been beautifully taken care of. They have these emergency stocks and you put in a PAD–15 and you drill the wildcat then and when you need the material, you get it.

The emergency deal however applies only if you—bear in mind I am talking about a fundamental principle. I am not talking about the way they operate. They have their rules and the rules are that you must have had an application in for the second quarter.

Mr. BURTON. That application must be in how much in advance?

Mr. THOMPSON. The application for the second quarter must have been in with a dateline of January 31.

Mr. FOREE. I beg your pardon, Mr. Thompson. It should have been in by January 2; 90 days.

Mr. THOMPSON. December 31. I beg your pardon. Let me correct that, please. I was off base, there. It is December 31, for the second quarter.

Mr. BURTON. Would you recommend a change from that?

Mr. THOMPSON. Not necessarily. A criticism without some constructive suggestion is a pretty poor premise to start on. I am not criticising but I am saying that there are those who feel that possibly the whole fundamental system of allocation—are we allocating steel to oil, or are we allocating steel to the industry to maintain it on an even keel? Now it is something that I want to throw out just for you to think about.

Mr. BURTON. Primarily we are allocating steel to the production of oil. However, we are trying to be fair in the distribution so that we do not discriminate against anyone, and in particular, this committee is interested in seeing that we do not discriminate against the small business firm, as that is our duly authorized function.

Mr. THOMPSON. This was no criticism of the rules as they exist, but I was showing you an identical case of where steel was needed to produce oil.

As a matter of fact, the individual involved bought foreign steel and paid $245 and $275 a foot. He borrowed it and then bought foreign steel to pay it back, and then he wanted the pipe because he had to drill within 30 days. He has to start drilling by March 1. But under the rules there was no way for him to get it.

Mr. BURTON. Now we are short of steel. If we were not short of steel, we would not have CMP, I hope.

Mr. FOREE. May I add, Mr. Chairman, that that was a no-history operator and he is given first consideration in the allocation of the supplement, each quarter. A no-history operator is the first man taken care of in the distributing of the supplemental allotments.

Mr. THOMPSON. But he must have had in a primary application by December 31, or he wouldn't qualify for a supplemental. Now I am not criticising the system, understand, but I am pointing out, the fundamental—I mean, are we allocating steel or have we come to the place where that sort of a situation can exist. It is just something to think about.

Mr. BURTON. I think it would be well for you to give us your angle on that.

Mr. FRAME. We are getting into a discussion of really a philosophy of the allocation of scarce materials.

Mr. BURTON. That is what we want to get into.

Mr. FRAME. But the philosophy will get into trouble. What Mr. Thompson has pointed out points out the weakness of any government-controlled system. You can't have any government system that won't at times work some inequity.

If we adopt a philosophy that we should allocate steel to oil, if you carry that through to its logical conclusion, that would invisage setting up in Washington or some other area a super-duper group of experts who would review all the possibilities of oil production in the country who would tell the individual operator where he could drill, where he could not drill, who would second-guess all the geological brains of the industry as a whole and would lead us into controls that not only would be far more galling than the present controls that exist now, but in my opinion, and I think in the opinion of everybody else in PAD, would result in a decrease in the production of oil for the amount of steel that is available.

There will be in any type of controls, unfortunately, some cases which do create inequities.

PAD will try to correct those inequities to the best of our ability, but we cannot deviate too far from rules for individual cases, because if we start making exceptions, then the whole system will break down of its own weight because we will have established precedents which will lead us into paths which will cause the whole operation ultimately to break down.

Mr. FOREE. Mr Chairman, in my opinion, if we allocated steel to oil, the major companies would get about 98 percent of all the steel, as they have the undrilled locations, while a great many of the independents "acquire" them as they go along.

I think it would be very detrimental to the small operator if you allocated steel to oil

Mr. BATZELL. Without going into the philosophy, there are a couple of factual points here that I think you might be acquainted with which arise out of these apparent problems with respect to cases:

Those factual considerations relate to the length of time that it is necessary to put a ticket in an operator's hand so that he can get to a mill, so that that production can actually be made by the mill.

Now the minimum lead time of the mills prior to a quarter is forty-five days. Hence if we are talking for example of the second quarter of this year, 1952, we are confronted with having to have delivery orders in the mills by February 15. That poses a very great administrative problem. What we have to do between the last filing date and February 15 is to get out 4500 applications and we have to get those out sufficiently far in advance that those operators in turn can take the tickets granted to them, place them on purchase orders, send those purchase orders through the mills, or to the mills.

We can start off with a lead factor: it takes three days, unless you drop them all in the post office yourself, to get a letter out of the government mailing room. We have dropped them in Post Offices ourselves to cut down the three days, but nonetheless you can readily appreciate that in setting this terminal date of December 31, or January 2 as the case happens to be, what we have done is to allow ourselves a matter of only 45 days in which to analyze 4500 cases, put in all the necessary pieces of paper, get them back to the operator, and have the operator place his order with the mills.

I just wanted that factual understanding because it is one of the important elements in this time thing which is always causing difficulties.

We try actually on the supplemental, which is the reservation to correct this. Where the small operator gets—the no-history operator, so-called—gets first preference when he comes along later, but that practically means that he will have to get his delivery of that pipe not in the first month of the quarter, but some month subsequent to the first month of the quarter. You see the problem that is raised by that time element.

Mr. BURTON. Mr. Thompson, I am going to apologize for having you sadly outnumbered.

Mr. FRAME. Mr. Thompson is never outnumbered.

Mr. BURTON. We would like for you to develop some of these points at issue.

Mr. THOMPSON. I am not qualified from a technical standpoint.

Mr. BURTON. At least you know about an oil well.

Mr. THOMPSON. I have been more or less on your side of the fence in that I listened objectively to the hearing, which I think is a very good thing. I wouldn't be surprised if Dr. Boatwright discovered a few things which maybe in the general turmoil which is bound to exist over in Colonial Village—the boys all admit that—that maybe he has learned a few things, and Mr. Frame this morning was the first one to say "Well, now, we would be glad to take that under consideration," and so forth.

I am sure that as far as PAD is concerned and as far as your staff is concerned, wherever constructive criticism comes up, they will cooperate to correct the situation. I have been repeating what has been said down among some of the boys. Now from a philosophy stand-

point maybe it will and maybe it won't stand up, but I felt it should be something that should be put in the record because that is what some of them are thinking about.

Mr. BURTON. You feel that your question has been answered, then?

Mr. THOMPSON. Of course Mr. Batzell I have known for some time. Mr. Batzell is very plausible and he has been down here in Government administration for a long time and he can explain practically anything, I will tell you that.

Mr. LAWTON. May I say something, Mr. Chairman?

Mr. BURTON. Proceed.

Mr. LAWTON. After we set this up, if there were three independent operators working as a partnership, they immediately split up and they all three wanted pipe. Therefore, we solved that problem by saying we would give him first call out of supplemental. Second, drilling contractors, they got numerous fifteen-day drilling contracts. Now if we had given credence to drilling contracts in the allocation of pipe, that would not have been feasible.

Those things were all worked out and accounted for.

In the case of these gentlemen who did not know about this and did not get their applications in, we left conversion, foreign and second-hand for them to get out of that difficulty. They then know about it and the next time they come in they are in good order and get the pipe.

Mr. DALMAS. I would like to ask Mr. Thompson a question at this point. Everything you have said while you have been on the stand accentuates one thing I think that we found when we went into this investigation; namely, lack of public information.

It was very difficult for us in the initial stages to get the information that we needed, but finally these gentlemen have come through in grand shape. But at the time we started the investigation, I believe one of the principal complaints was that the people most interested in the formula and how it worked and what the allocations were and so on, did not have access to that information; is that right?

Mr. THOMPSON. That is correct, and we might as well throw it all out. Last fall, one of our principal complaints—I mean the one that really got us a little mad, was when they said the formula was secret.

Mr. BURTON. What formula?

Mr. THOMPSON. The formula under which it was allocated was a secret. We could not understand why in the world their formula under which our pipe was allocated should be a secret. Since then it has all come out, but I mean at that time that was one of the points of quarrel between us and PAD. We did not see why the formula itself should be a secret.

Mr. BROWN. You mean the standard, don't you? You don't mean the "A" factor?

Mr. THOMPSON. Yes. Frankly after we saw the formula it was just as much of a secret as it was before.

Mr. BROWN. There has been discussion here from memory to-night, and I think my memory might be more accurate as to dates. This industry meeting that was alluded to as having been held in November was actually held in September, under Mr. Lawton's jurisdiction and at my suggestion. At that time, we did show this industry group

the standards as we had them and we showed them the allocations for the third and fourth quarter, to the B class operators except we blotted out the names of the operators. We spent three days with them trying to get 15 oil men out of 5,000 who understood the scheme, at any rate.

Further, I would like to say that I don't know what private conversations Mr. Thompson may have had with Mr. Foree about this hearing, but Mr. Foree didn't come here until December because I went down and yanked him up here. He has been one of the most scurrilous of the critics so we made him come up and run the show but I want to state for Secretary Chapman that he has never opposed this hearing and the record of our correspondence with Congressman Patman will show that. We have invited the hearing.

Mr. BURTON. Thank you.

Mr. Foree—

Mr. FOREE. May I say the only reason we didn't welcome the hearing was that it just doubled our work for the last two or three days, that is all.

Mr. BURTON. It is not impossible that considerable good will come out of it?

Mr. FOREE. Yes, sir, but as I told you when I went out at noon I want you to come over to the Village and catch the tempo of the work over there.

Mr. BURTON. As I told you, I will welcome the opportunity and I judge some of my colleagues will be glad to join me.

Mr. FOREE. I will be glad to come and get you.

Mr. BURTON. I would like to know what an oil well is.

Mr. THOMPSON. Mr. Chairman, is the hearing about to be adjourned?

Mr. BURTON. As soon as you finish, we will adjourn.

Mr. THOMPSON. Without any particular emphasis on the fact that DPA has not allocated the amount of steel necessary for the expanding program?

Mr. BURTON. They will be heard tomorrow morning.

Mr. THOMPSON. That is what I wanted to know. Our executive committee had a meeting Monday and passed a resolution that you should have received a copy of today.

Mr. BURTON. That we consider a very important part of our hearings.

Have you further observation or suggestion for the improvement of the present plan?

Mr. THOMPSON. No, sir, except I think that this record will show undoubtedly that there have been some suggestions made that the PAD will want to incorporate. Is that correct, Mr. Frame?

Mr. FRAME. That is correct.

Mr. THOMPSON. With all these things assessed, if we are going to have continued controls, I believe the hearing has brought some things out in the way of methods and system and so forth that will be an improvement.

I would like to emphasize this, and that is that it will be far more efficient—Mr. Riehlman is gone, but it will be far more efficient if the personnel of the PAD is increased to the point where particularly district offices can be set up. I don't think there is any question in that. I think they will all agree with it.

From the standpoint of the little operator, sir, that is pretty important, and the cost, as compared to the amount of oil produced and the drillers affected and so forth, will be infinitestimal but I think it should be taken into consideration. That is one of the reasons that I said to Mr. Foree that if that is brought out at the hearing, then you are going to have a Congressional committee in back of you.

Mr. BURTON. We are very glad to have the benefit of your suggestions and I thank you, Mr. Thompson. I thank you gentlemen for testifying.

We will now adjourn until 10:00 o'clock tomorrow morning when we will hear DPA.

(Whereupon, at 9:30 p. m., the subcommittee adjourned to reconvene at 10 a. m. Thursday, February 28, 1952.)

ALLOCATION OF OIL-COUNTRY TUBULAR GOODS

THURSDAY, FBRUARY 28, 1952

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE NO. 3 OF THE
SELECT COMMITTEE ON SMALL BUSINESS,
Washington, D. C.

The subcommittee reconvened, pursuant to adjournment, at 10:05 a. m., room 1301, New House Office Building, Hon. Clarence G. Burton, chairman presiding.

Present: Representative Burton presiding.

Also present: Victor P. Dalmas, Executive Director; Jeremiah T. Riley, Assistant Counsel; and Byron B. Boatright, Consultant; of the staff.

Mr. BURTON. We will call the meeting to order.

The committee wishes to thank the officials of DPA for appearing here today to supply us with further information concerning the allocation of scarce materials to the petroleum industry. These hearings are a continuation of an over-all study of the Controlled Materials Plan. At this time we are particularly interested in the extent to which DPA has supported the need for an expansion of production and refining facilities in this industry.

We wish to inquire now how far the Requirements Committee of DPA has gone in implementing the recommendations of PAD to meet the national requirements.

First we would like to hear from Mr. Ralph Trigg, Deputy Administrator for Program and Requirements.

STATEMENT OF RALPH S. TRIGG, DEPUTY ADMINISTRATOR FOR PROGRAM AND REQUIREMENTS, DEFENSE PRODUCTION ADMINISTRATION (ACCOMPANIED BY PAUL COHEN, ASSISTANT DIRECTOR, REQUIREMENTS COMMITTEE STAFF; AND JAMES TAYLOR, ANALYST, REQUIREMENTS COMMITTEE STAFF, DPA)

Mr. TRIGG. I have a short statement, Mr. Chairman, and if it meets with your pleasure, I would like to present that and answer any questions that you might have.

I believe that you and the other members of this committee are well aware of the fact that the Defense Production Administration is confronted quarterly with the task of dividing up the supplies of steel, copper, aluminum, and other critical materials among the various defense, basic expansion, and civilian programs.

Invariably, the requirements which are compiled by various claimant agencies within the Government on behalf of munitions, manufacturing industries, public utilities, schools, housing, and so forth,

exceed the available supply. It is necessary, therefore, to make judgments as to the urgency of various requirements and the deferral of less essential production. To meet this assignment, we have a small staff; and, in addition we call on the staffs of other government agencies and on the inter-agency Requirements Committee, which is manned by representatives of the principal claimant agencies. Experience to date discloses that demand-supply unbalance requires the deferment of some urgent production.

Despite such unbalance, our allotments for oil and gas well drilling have been restricted only by the limitations of fabrication facilities. Specifically, the allotments to date reflect the following:

1. All the oil-country tubular goods that can be produced by the domestic steel industry have been allotted to the oil program.

2. About seven-eighths of the total has been allotted to the domestic oil industry, the remainder going chiefly to Western Hemisphere countries. The domestic allotment has proved sufficient to permit the drilling in 1951 of some 45,500 wells, or 1,100 more than the established goal. The division of oil-country tubular goods between the domestic and foreign oil industries has been developed essentially from evaluations made by the PAD, with the advice of the Department of Defense, OIT and MSA, and its predecessor, ECA.

3. To provide more capacity for producing oil-country tubular and other products, DPA and NPA have authorized the construction of extensive new facilities. Five such projects have received authorization for accelerated tax amortization. One of these is expected to start production during the fourth quarter of 1952; the others should come into operation during the last half of 1953.

Completion of these projects should permit an increased rate of production by the end of 1953, amounting to approximately 20 to 25 percent.

4. Pending the completion of the new facilities, DPA, PAD and NPA are engaged in exploring the possibility of obtaining other types of tubular goods that might satisfactorily be used as substitutes for regular oil-country tubular goods, even though they may not exactly meet recognized oil industry specifications.

One such possibility involves seamless mechanical tubing. We understand that there is available certain special facilities for the manufacture of this product. However, utilization of these facilities requires tube rounds, which are currently in urgent demand. Additional tube rounds production is limited by the comparable urgency in demand for other critically short steel products produced on the same facilities.

Another possibility involves the use of electrically welded mechanical tubing in place of regular oil-country tubular goods. Fabricating facilities are available and sheet and strip tonnage could be diverted. DPA would consider allotting additional tonnage to the oil industry from this source, if it can be established that the product will meet the necessary specifications.

We recognize that wider use of mechanical tubing of either type would be in the nature of a temporary expedient. If either of these possible sources of supply proves realizable, it should be possible to increase well drilling operations in the second half of 1952.

From the start of its operations more than a year ago, DPA has recognized the importance of building up crude oil producing capacity as a major and indispensable part of the defense mobilization program.

Accordingly, the allotment policy for oil-country tubular goods has been designed to permit the development of domestic reserve capacity and, within the limits of supply, to permit production consistent with foreign free world requirements.

Mr. Chairman, in general, as I think the statement tends to outline, we have allotted sufficient steel to require or use to the fullest extent possible the fabricating facilities for oil-country tubular goods. It has been our policy to support that program to the fullest extent consistent with those facilities that can produce those goods. That is what we have attempted to point out here.

We recognize the importance, of course, of the oil development program and every effort has been made to be sure that they are supplied with the required amount of steel.

I would like to point out at the outset here in allocating these materials, we do not allocate steel as steel in raw form, so to speak, across the board. We allocate the products that come from steel and that is the limitation that is brought about by the facilities available to produce those products.

That is the limiting factor here in so far as the steel is concerned that goes into oil-country tubular goods.

Mr. BURTON. Thank you, Mr. Trigg. You have made it clear that you fully appreciate the value of oil production in the defense effort and have gone all out to allocate as liberally as you can steel for this purpose.

I am wondering whether any changed situation in world conditions may give additional importance to the production of oil and whether therefore, in making your further allotments, it would be possible to give additional weight to the oil production needs?

Mr. TRIGG. As I attempted here, Mr. Chairman, to show, we are giving all of the steel that can be used and fabricated for this particular industry in terms of oil-country tubular goods. We are expanding facilities, some of which will be in production at the end of this year, and quite a bit will be in production by the end of 1953, and to what extent we are continuing to recognize the importance of the oil producing industry and its needs and its use in any defense effort in view of whatever world situation might develop.

Mr. BURTON. Could you give us a little more specifically the extent of those additions as now expected for this present year, as well as next year?

Mr. TRIGG. Yes. At the present time we have capacity in terms of about 517,000 tons per quarter, or something slightly over two million tons annual production.

We expect, by the end of 1953, to have this up to approximately 625, or 640, something in that neighborhood, thousand tons per quarter, or about two million some odd, six hundred thousand perhaps, by the end of 1953, on an annual basis. About thirty thousand tons of that production will be in, we feel, by the end of 1952, and the rest of it, of course, will be in by the end of 1953.

Mr. BURTON. Then you expect the situation to be eased by late in 1953?

Mr. TRIGG. In terms of the present drilling program, yes. We feel there will be a considerable expansion in this and there will be more oil-country tubular goods available to provide for the present drilling program as projected by PAD and the other agencies of government.

Mr. BURTON. You referred to having additional substitute tubular goods. Would that be referring to the conversion steel that has been mentioned earlier in these hearings?

Mr. TRIGG. What we had presently in mind there was fabricating facilities of a mechanically-welded-type pipe and things of that nature which could be used as a substitute during the time that we are trying to get this increased expansion where we would produce the regular oil country tubular goods.

Some conversion steel, if it can be used—I am sure; I would have to ask somebody else to answer that, or I could supply it for th record—I am not sure conversion steel can be used during this interim, but if so, we have conversion steel that is available for this purpose or could be allotted for it.

Mr. BURTON. I was trying to develop whether this is in addition to the conversion steel that has already been figured in the information that has been given to us up to this time.

Mr. TRIGG. It is in addition to that.

Mr. BURTON. This is in addition thereto?

Mr. TRIGG. Yes, it is, Mr. Chairman.

Mr. BURTON. Now, to what extent is that acceptable to the industry or thought to be practicable?

Mr. TRIGG. I might ask someone more directly connected with the industry to comment on that, Mr. Morrison from the Petroleum Administration for Defense, or Mr. Frame is here.

FURTHER STATEMENT OF R. M. MORRISON, DIRECTOR, MATERIALS DIVISION, PETROLEUM ADMINISTRATION FOR DEFENSE

Mr. MORRISON. This is in the area we spoke of yesterday when we mentioned making tickets available for the small operator. In other words, the conversion steel, as we have been participating in it for a number of years, is a regular oil country tubular goods production made from, let us say, premium steel.

Now, this other area that we are talking about, this mechanical tubing we are attempting to develop. We have reason to think—in fact, we know of some cases where actually contracts have been made where they will take mechanical tubing made on a mechanical tubing mill—not an oil-country tubular mill—and are putting that into the oil fields and the finishing wil be performed outside of the steel industry. By that I mean instead of having the finished oil-country tubular goods, you will have a piece of pipe to the same dimensions and with sufficient physical properties that it can be threaded and coupled and put in the hands of the oil operators for use in lieu of oil-country tubular goods.

Mr. BURTON. That will give you additional material beyond that that you used in the figures presented to us yesterday?

Mr. MORRISON. Yes. We are hopeful. We see available, as Mr. Trigg said, in the area of 517,000 tons—we stretched that from 517,000 with all the available conversion steel, up to 550,000 tons.

Mr. BURTON. Percentage-wise, that will add how much to your available supply?

Mr. MORRISON. At the present time we are actually using that right now. Now we are trying to raise that 515 to 550,000 tons of known production of oil-country tubular goods which includes the conversion steel now being used by an additional one hundred thousand tons. We think it is there if the steel can be diverted to the finishing mills and to that extent we would have an appreciable increase, in the neighborhood of twenty percent, that would be almost immediately available at premium prices, but it would still do the work.

Mr. BURTON. How great a premium, percentagewise?

Mr. MORRISON. It would probably be in the neighborhood of fifty percent.

Mr. BURTON. Is it prohibitive?

Mr. MORRISON. No, the conversion steels are running presently 75 to 100 percent premium. This steel would be in the area of a 50-percent premium. It is still not as good as the conversion steel, the regular, oil-country tubular goods conversion steel, but it will be utilized by the operators and we are hopeful that we can make it readily available so the smaller operators can cash their tickets through centralized stocks of this particular type of mechanical tubing.

Is that clear, sir?

Mr. BURTON. Yes. Thank you very much, sir.

Mr. DALMAS. With regard to the facilities for which you have certificates of necessity, how nearly on schedule are they?

Mr. TRIGG. They are fairly well on schedule. I would have to supply that information for the record if you would like it, but from what I know I think they are pretty well along. At least we expect it all to be in by the end of 1953, with the exception of this, which will be in 1952.

Mr. DALMAS. We understand that you are making some effort through Mr. King's office to keep all of these expanded facilities of basic commodities on the schedule. Is that correct?

Mr. TRIGG. That is correct; yes, sir.

In other words, every effort is being made to solve this problem through the allocation of materials to the fullest extent that facilities can use them presently, and expand whatever is necessary to do the total job. We are anxious that those be kept on schedule and completed just as soon as possible.

To that extent every effort in the whole DPA, PAD, and other agencies is being exerted.

Mr. DALMAS. That is all I have.

Mr. RILEY. Mr. Chairman, I wonder if I might ask a question?

Mr. BURTON. Mr. Riley.

Mr. RILEY. Mr. Trigg, you have been discussing one of the primary trouble spots that has been bothering the industry. That is the fact that DPA is fully allocating the steel to fill up the mills.

Now, the impression that we have gathered from the industry is that they are not satisfied that the mills are rolling out as much as they are capable of rolling out if they were given additional raw steel.

They have the opposite impression on that. They point to the fact that they are able to buy conversion steel. They raise the question, and I think it is a natural question, "why isn't that conversion steel being routed to them under normal conditions and at normal prices?" They feel that conversion capacity should be receiving steel at normal prices and that they should receive their pipe at normal prices.

You have been doing a good job in clarifying that.

Mr. TRIGG. Mr. Cohen might answer that question in detail to your satisfaction.

Mr. BURTON. Would you be good enough to identify yourself for the record?

Mr. COHEN. Paul Cohen, Special Assistant to the Administrator.

The problem of conversion steel essentially involves ownership of ingot wherever NPA, through the steel provision, can identify ingot availability in the hands of producers who have finishing facilities in the critical shapes—the oil country tubular goods, heavy structurals, plates and the like—they are directed to utilize their steel or their ingot to the fullest capacity in fulfilling maximum productive capacity of the things needed. The conversion steel comes into play when those who have finishing facilities in this field have insufficient total ingot to fully utilize those facilities.

Now, I do not think anyone in Washington is prepared to say that we are doing a one hundred per cent job there in assuring, for example, that a major steel corporation uses every pound of its own steel in a finishing facility that it owns, if that finishing facility's product is urgently required, but clearly every effort wherever possible is made in that direction.

Now, it happens that there are number of producers who have normally idle facilities in this finishing area, for tight shapes, who do not control ingot and ingot must be directed to them. This then takes us continually into the area of conversion steel.

We would like, wherever possible, to eliminate all conversion steel and eliminate the whole price problem from this picture, which we are unable to do.

Mr. RILEY. Mr. Trigg, you brought out this point in your statement:

The export of oil-country tubular goods seems to be an inter-agency matter between OIT and the Department of State. I notice that you exclude yourself. I know that you do not mean to.

That is a problem that has been bothering industry. I think this presents an opportunity when we may be able to get it sufficiently laid out so that they will know what the exact situation is on exports.

Mr. TRIGG. DPA has the final responsibility for making that decision, but the decision is made after such time as it is considered by an inter-agency group of experts. If I make a decision it is made based on the recommendations of this industry group which includes these agencies mentioned in this statement. They are the experts in the field and I have no hesitancy in taking their recommendations on it, if we can at all meet the requirements.

Mr. RILEY. I am just passing on ideas we have received from industry. They come in the form of correspondence and interviews that we have had with a number of operators. They have the suspicion that

the domestic drilling program is being carried on at the expense of the foreign program.

In other words, they feel that the foreign operations are receiving a greater proportion of the amount of steel than they are entitled to.

Mr. TRIGG. We are speaking for the people in the industry, or on the inter-agency committee that we spoke of. As an individual I am in no position to judge that "X" tons go to the domestic industry or "X" tons go to the foreign industry.

I have to depend upon people who understand and know that operation. We do take the advice and consultation of these people.

Mr. RILEY. I think it is a pretty well known fact that there is a definite shortage of the smaller gauges of pipe in the industry. I think that fact alone has caused quite a bit of hardship on the smaller operators. You get more pipe of the smaller gauges per ton than you do larger gauges.

I realize this is an NPA problem, but are you acquainted with the switching of mill patterns into the production of smaller gauge pipe which has a greater demand at the moment.

Mr. TRIGG. I am sorry I am not entirely familiar with whether it can be done or not. Perhaps someone from PAD could answer that question for us. It is somewhat of a technical question and I am frank to admit that I do not know.

Mr. MORRISON. That has been a problem which has beset the industry since the allocation of oil country tubular goods. When we allocate casing on a tonnage basis, those companies who were using the larger diameter strings immediately wanted to reduce the size to the minimum and they insisted for instance, on 5½ in place of 7 inch.

Historically the steel industry production has been predicated on a tonnage basis. When the mills were originally installed they were installed on a pattern of oil company drilling of possibly 20 years ago. That took in an area, starting with the surface casing, oil-country tubular goods, 13⅜ and down to 10¾, 9⅝, 7⅝, and 5½, and they set a pattern of actual use and they erected their facilities on that basis.

Now with the advent of allocation of oil country tubular goods by tons, obviously you get a great many more feet of the smaller sizes.

Bearing in mind that these mills are mills that have been in operation for many years, it is impossible to change them.

We have attempted to encourage, and have had the full cooperation of DPA and NPA, as large an amount of 5½ inch and smaller sizes as it is possible for them to make.

In other words, if they have three mills—the number one mill, the number two mill, and the number three mill. The number one mill might have a range of from 4 to 7⅝ inches.

We have attempted to influence those mills to maximize their 5½ inch production. In their number two mill, in a certain area, they will have a jump from 7 inch to 10¾. Again, we ask them, will they within the limits of their facilities, hold to the 7 inch as much as possible.

Now the National Petroleum Council, recognizing that in the new production and possibly the replacement of existing facilities, should have a review of this pattern that has stayed with us for so many years.

The National Petroleum Council is making a very complete, extensive survey and is going to recommend definite sizes with the thought in mind that they will so advise the steel industry that we would like that pattern changed to such and such a percentage of the various types and sizes.

Now, with the new mills that are coming in, and I speak specifically of the Lone Star, and the Colorado Fuel and Iron, and the Western Steel mill in Los Angeles, they are emphasizing the five and a half and the small sizes. It is short only because we have changed the pattern of demand. Instead of asking for 27 and a half percent over a period of years, we suddenly changed it and wanted 35 percent of the five and a half.

All of the mechanical tubing and conversion steel and imported steel coming in is now in the five and a half and seven inch areas.

At this particular moment, as long as those supplemental supplies have been added to our normal production of oil country tubular goods, I would say that the mill pattern as it exists today, as long as we utilize all of those extras—the conversion steel, the mechanical tubing and the foreign steel, I think the pattern is almost perfect despite the fact that over the long pull it needs readjustment.

Did I make myself clear?

Mr. BURTON. I think so.

Mr. RILEY. Yes.

Dr. BOATRIGHT. I would like to ask what steps are being taken to eliminate trans-shipment of tubular goods. That is, we are exporting a considerable amount of tubular goods and still we are importing tubular goods. What is the possibility of avoiding that?

Mr. TRIGG. I am not entirely familiar with the problem, but generally speaking, our policy would be to make the most use of facilities of available materials and things of that nature, cutting out as much haul as possible one way or the other, in order to maximize the production of this tubular goods and to finally get as much use as we can out of it.

There may be some detail that you are interested in that I cannot answer. I am not trying to evade the question, but I just do not know to what extent that is actually taking place.

It has not to my knowledge, been a major problem with us and therefore I am not familiar with it.

Mr. BURTON. Mr. Morrison, would you care to comment on that? That was developed yesterday.

Mr. MORRISON. The area of determining the amount of oil-country tubular goods that it is possible to obtain in Europe is one of the most difficult to resolve. Basically, in normal times, starting in 1946, 1947, 1948 and so forth, prior to the time we got into the oil country tubular goods shortage, there was sufficient production in Europe, in England, in Italy, in Germany, Belgium and France to take care of the foreign oil company operations.

Many of the oil companies have purchasing offices on the Continent and they had the foreign currency, sterling and so forth that they had to spend and things went along pretty smooth.

When the oil-country tubular goods in this country became short, we in the United States were sending buyers abroad and they were outbidding the foreign oil companies and offering dollars instead of soft

currency. That is when appreciable quantities of oil-country tubular goods began coming in here.

The foreign operators found they could not compete with that and they in turn had to boost their prices and start paying American dollars. The price kept going up and quantities coming into the States increased.

We are not attempting to be arbitrary or to take drastic steps, because there is a great deal involved, more than just the oil country tubular goods—we have a whole area of international relationships, which we recognize. We are—I will not even say quietly, I will say publicly, and I do not want to use the word threatening, that is not the word I want to use.

Let me say, we are letting it be known that we are considering charging the receipts of foreign pipe against domestic allocations, having in mind that that in itself would have a tendency to dry up and have the offerings stay abroad where they belong.

It is having that effect.

In other words, we are psychologically attempting to discourage the importation of oil-country tubular goods to the extent that we can do so without interfering with international trade, which is beyond our bailiwick.

We have had encouraging news that increased offerings are being made abroad now, and the price is beginning to come down a little.

There are some areas where they have been able to spend their soft currency. All in all, with the help and cooperation of MSA and OIT they, through their Paris offices and their other foreign representatives, are attempting to direct—they have no control materials plan and no control over prices, and they have no directive powers whatever—but they are attempting psychologically to encourage the foreign producers to sell their pipe to the foreign oil operators.

As I say, we are attempting to discourage it, but we do not want to stop it unless we can be sure we are stopping the exportation of a similar amount.

The figure of imported oil-country tubular goods was around 140,000 or 150,000 tons, but our best information that we have today, checking it yesterday and again this morning, seems to be in the neighborhood of about 75,000 tons, so we are accomplishing a step in the right direction. Frankly, though, we have not found the 75,000 tons where we can identify it and earmark it for foreign operating oil companies and in turn tell them that they cannot get the 75,000 tons out of the States now.

That is a problem that we are constantly working on. Theoretically, if we stop 25 or 30 or 40 thousand tons from coming into the States, we should be able to say that that has gone abroad. Therefore, we could stop the exportation of that amount. We just have not gotten it down that fine yet, but that is what we are leading toward.

Is that clear?

Dr. BOATRIGHT. Yes.

Mr. RILEY. Yes.

Mr. BURTON. As a matter of information, where is the principal source of supply of this production of steel tubular goods?

Mr. MORRISON. In Europe?

Mr. BURTON. Yes; the foreign production.

Mr. MORRISON. In the United Kingdom. The British have about 20 percent of it.

There is an Italian mill which probably produces 15 percent. There are two German mills that will produce 30 percent of the total. There is a mill in Belgium and a mill in France. I have not added up those percentages, but it is in that area.

I would say that Germany was first. Probably the firm in London second; the Italian mill third; the Belgian mill fourth, and the French mill fifth.

Mr. DALMAS. Are there any mills in South America?

Mr. MORRISON. Not for the manufacture of oil-country tubular goods.

Mr. DALMAS. If you did not send some to South America, you would lose part of your market down there?

Mr. MORRISON. I think that is quite true.

Mr. DALMAS. And we would give up that market to Europe probably?

Mr. MORRISON. Undoubtedly.

Mr. DALMAS. Would it injure our whole trade situation with South America?

Mr. MORRISON. I do not think we would dare cut that off, sir. I think it would have a detrimental effect.

That is one of the areas covered by this OIT and MSA Committee. For instance, our Foreign Materials Requirements Committee is composed of all these agencies and state and political reasons are always considered and no moves made that would be politically dangerous.

Normally the South American market would be lost to the United States, which we would like to see lost right now, because we have a 12½percent import duty here on oil-country tubular goods, and the water freight from the European ports to the South American ports is approximately the same as the freight from the U. S. ports to South America, so that you could buy in the normal market and land the oil-country tubular goods in South America cheaper than you could ship them out of the States normally.

Mr. DALMAS. I take it your idea is to balance imports with exports as far as tubular goods are concerned?

Mr. MORRISON. I think we would have to do something like that. Particularly in the Western Hemisphere. I think the United States will always have to supply the oil-country tubular goods in the Western Hemisphere to a great extent.

Mr. COHEN. There is another point that turns on that too.

I am advised that perhaps as much as 75 percent of our export of oil-country tubular goods moves to countries in the Western Hemisphere, essentially Canada and Venezuela, which may create a statistical impression of trans-shipment that is not real. That is, it is shipment in the European direction, with the re-direction of oil-country tubular goods to the United States. We are comparing two different types of movement.

Mr. BURTON. I think that is a very important point.

Mr. COHEN. There is always the danger of looking at export-import statistics in a total sense.

Mr. BURTON. Is there anyone present who would like to make a further comment or inquiry while we still have Mr. Trigg on the stand?

If not, Mr. Trigg, I want to thank you and your associates very kindly for coming and testifying.

I have here a resolution which I would like to read for the record before we recess.

Whereas the Executive Committee of the Texas Independent Producers and Royalty Owners Association endorses the recommendation of the Petroleum Administration for Defense that addiitonal steel be made available from the Defense Production Authority to insure an expanded domestic program calling for the drilling of 80,000 wells in the United States by the oil industry during the period July 1, 1952–December 31, 1953; and

Whereas the Small Business Committee of the House of Representatives has announced that it will conduct an investigation of PAD's allocation of tubular goods to the oil industry; and

Whereas this expanded program of development of the oil industry is necessary and essential to the National Defense: Now, therefore, be it

Resolved, That we respectfully request the Small Business Committee of the House of Representatives to recommend to the Defense Production Authority that sufficient steel be allocated to PAD to insure the accomplishment of this program of domestic expansion, and that a copy of this resolution be directed to Honorable Wright Patman, Chairman of the Small Business Committee, House of Representatives, and a copy to Honorable Clarence G. Burton, Chairman of the Subcommittee investigating PAD allocation of tubular goods.

Unanimously adopted and approved by the Executive Committee of the Texas Independent Producers and Royalty Owners Association in meeting assembled at Austin, Texas, this 25th day of February, 1952.

By /s/ Bryan W. Payne,
BRYAN W. PAYNE, *President.*

This is to certify that the foregoing is a true and correct copy of an excerpt from the minutes of the Executive Committee Meeting of the Texas Independent Producers and Royalty Owners Association in Austin, Texas, the 25th day of February, 1952.

Given under my hand and seal of office this 26th day of February, 1952.

/s/ E. I. Thompson,
E. I. THOMPSON, *Executive Vice President.*

We will now recess this hearing until some later date.

We will call you if necessary, and only if necessary.

I thank you all so much.

(Whereupon, at 10:50 a. m., the subcommittee adjourned to reconvene at the call of the Chair.)